



Doing Business in Nepal: 2009 Country

Commercial Guide for U.S. Companies

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- [Chapter 1: Doing Business In Nepal](#)
- [Chapter 2: Political and Economic Environment](#)
- [Chapter 3: Selling U.S. Products and Services](#)
- [Chapter 4: Leading Sectors for U.S. Export and Investment](#)
- [Chapter 5: Trade Regulations and Standards](#)
- [Chapter 6: Investment Climate](#)
- [Chapter 7: Trade and Project Financing](#)
- [Chapter 8: Business Travel](#)
- [Chapter 9: Contacts, Market Research and Trade Events](#)
- [Chapter 10: Guide to Our Services](#)

Chapter 1: Doing Business in Nepal

- [Market Overview](#)
- [Market Challenges](#)
- [Market Opportunities](#)
- [Market Entry Strategy](#)

Market Overview

[Return to top](#)

- With a per capita income (Gross Domestic Product) of only \$470, Nepal is one of the world's poorest countries.
- Limited natural resources, a landlocked location, difficult topography, poor infrastructure, a weak human capital base and a long history of public intervention in the economy are some of the impediments to economic growth.
- Agriculture accounts for approximately 32.12 percent of gross domestic product (GDP) and 70 percent of employment.
- In the last three years real GDP growth averaged less than four percent per annum.
- The GDP growth rate for FY 2007/08 was 4.7 percent.
- Nepal traditionally runs large trade and current account deficits, which are offset by equally large service, transfer and capital account surpluses.
- Based on the balance of payments statistics for FY 2007/08 (mid-July to mid-July), Nepal's overall balance of payments (BOP) recorded a surplus of USD 452.89 million. However, the BOP surplus did not reflect import trade credit amounting to USD 220 million in 2007/08. In FY 2005/2006, Nepal recorded a BOP surplus of \$352 million, but it declined to \$83 million in FY 2006/2007 due to an increased trade deficit and payment of overdue oil import bills. The gross foreign exchange reserves went up by 21.9 percent to US\$ 3.1 billion in FY 2007/2008. As of mid- December 2008, the gross convertible foreign exchange reserve of the banking sector stood at USD 3.05 billion, enough to finance merchandise imports of more than 10 months.
- In FY 2007/08, Nepal's exports totaled USD 936.5 million and imports totaled USD 3.48 billion.
- Carpets and garments constituted the vast majority of Nepal's officially recorded exports and are mostly exported to Germany and the United States.
- India accounts for 63.8 percent of Nepal's total trade. During FY 2007/08, exports to India dropped by 7.4 percent after rising 2.5 percent the previous year. Exports to other countries, however, soared by 25.5 percent, after falling in the previous two years. The decline in exports to India was due to drop in the exports of vegetable ghee, textiles, chemicals, rosin and readymade garments. Exports to India were also affected by frequent transportation strikes and business and border closures, particularly in the Terai, as well as by labor union unrest. These latter factors forced major export-oriented industries to shut down their operations for weeks and months at a time.

- Conversely, exports to other countries rose due to increase in the exports of lentils, Nepali paper and paper products, herbs, wheat, noodles, ceramic products, electric wire and stationery. Due to the 16.1 percent growth in imports and a meager 2.4 percent growth in exports, the trade gap in FY 2007/08 widened by 22.2 percent, compared to an increase of 19.2 percent the previous year. The rise in the import of petroleum products was the major contributing factor in the rise of the total imports in 2007/08.
- The U.S. is the second-largest market for Nepali exports. Imports to Nepal from the U.S. are low compared to those from other countries. In FY 2007/08, out of the total imports of USD 3.65 billion, only 1.55 percent came from the U.S. However, exports to the U.S. constituted 7.9 percent of all exports in FY 2007/08, which totaled USD 902 million.
- Nepal has had sixteen governments in the last 18 years.
- After numerous delays, the historic Constituent Assembly election was finally held on April 10, 2008. The Communist Party of Nepal (Maoist) emerged as the largest party, securing 229 seats, and its leader formed a six-party coalition government in August 2008. The Maoists' principal partners are the CPN-UML and the Madhesi People's Rights Forum, the largest Terai-based party. The new government suffers from the same problem that hampered the interim government before the CA election: a lack of unity. Deep divisions exist not only between the coalition members but also within the individual parties themselves. As a result, the violence that marked the lead up to the election continues, and in some cases it has increased. Tensions between the ethnic communities in the Terai, the central government and the Maoists, which led to deadly clashes with security forces in the months before the election, remain high. These communities are angered by their underrepresentation in the new government. Numerous ethnic-based groups have been formed to demand greater recognition, many of which have vowed to use violence to obtain it. Widespread protests, demonstrations and strikes continue to plague the region. Meanwhile, Maoists leaders have been unable – many people believe unwilling – to control the violent activities of its affiliated youth organization and trade unions, which continue to carry out extortion, kidnappings and other forms of intimidation, including murders. In an effort to counter the growing violence of the Maoist Young Communist League (YCL), the CPN-UML in 2008 created the Youth Force. Violent confrontations between the Maoists' youth wing and that of its largest coalition partner are common, and sometimes turn deadly. The YCL, recently renamed the Young Communist Democratic League (YCDL), however, has not limited its use of violence to its political rivals. It has also targeted the police, journalists and non-governmental organizations.

Nepali Market Challenges

[Return to top](#)

- Nepal is a landlocked state, which makes market access a serious challenge. Surface transport into and out of Nepal is severely constrained. There is only one reliable road route from India to the Kathmandu Valley, and parts of it are often closed by unrest and general strikes. Unrest in Terai in the last couple of years has seriously disrupted movement of goods in and out of Nepal. The only practical seaport for entry of goods bound for Nepal is Kolkata, India, about 650 miles from the Nepal-India border.

- Although the Government of Nepal (GON) is open to foreign direct investment, implementation of its policies is often distorted by bureaucratic delays and inefficiency. Foreign investors constantly complain about complex and opaque government procedures and a working-level attitude that is more hostile than accommodating.
- A foreign company must either be registered in Nepal as a foreign investor under the Foreign Investment and Technology Transfer Act of 1992, or have a permit to import and export commodities and services.
- High customs tariffs imposed on most manufactured products increase the price of U.S. products in the Nepali market.
- Foreign investors must deal with a non-transparent legal system. Firms complain that basic legal procedures are neither quick nor routine. The bureaucracy is generally reluctant to accept legal precedents. As a consequence, businesses are often forced to re-litigate issues that had been previously settled. Furthermore, legislation banning foreign investment in financial, legal, and accounting services has made it difficult for investors to find help cutting through regulatory red tape.
- U.S. firms and other foreign investors have identified pervasive corruption as an obstacle to maintaining and expanding direct investment in Nepal. There are also frequent allegations of corruption by Nepali government officials in the distribution of permits and approvals, procurement of goods and services, and award of contracts.

Market Opportunities

[Return to top](#)

- Nepal's overall potential as a market for U.S. exports is very modest.
- Sectors with the best sales potential include telecommunications equipment, computers and peripherals, hydropower equipment, and aircraft parts. U.S. computers and peripheral equipment and telecommunications equipment are highly competitive in the local market.
- Best prospect sectors for U.S. investment in construction are hydropower and civil aviation infrastructure.
- Prospects in hydropower include the proposed 750 megawatt West Seti Project, which is being developed by an Australian consortium and three projects in the Karnali, Koshi and Gandaki river basins, the development of which Nepal's Department of Electricity Development (DOED) has opened to foreign investment. Nepal expects to add approximately 10,000 megawatts to its generating capacity over the next decade.
- A number of major projects are under way that hold potential for U.S. business. In FY 2008/09, Nepal Telecom (NT) plans to spend approximately USD 66.43 million on expansion of telecom services in Nepal. In the civil aviation sector, the Ministry of Culture, Tourism, and Civil Aviation (MOCTCA) plans to build a number of airports and invite tenders from foreign investors. Twice in the past two years, the MOCTCA invited proposals from foreign companies to develop the airports on a Build-Own-Operate-Transfer (BOOT) basis, but due to the ongoing insurgency and an unstable political situation, investors stayed away.
- Business opportunities exist within the ongoing NT Telecommunication Development Project (FY 2009-10) for equipment sales.

- Relationship-building in Nepal is essential to conducting business. For large-scale business ventures, investors or suppliers are encouraged to visit.
- To access the local market, foreign companies generally should use local representatives and agents. Supplying government projects offers opportunities for large volume sales, but requires an authorized local representative or agent.
- The U.S. Embassy's Political/Economic Section handles commercial matters and provides agent/distributor services for U.S. companies to assist in selecting a reliable partner. It works closely with the Senior Commercial Officer in New Delhi, who is responsible for India, Nepal and Bangladesh. Requests for these paid services are normally routed through U. S. Export Assistance Centers, available through the U.S. Department of Commerce (<http://www.buyusa.gov/home/us.html>).

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/5283.htm>

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 3: Selling U.S. Products and Services

- [Using an Agent or Distributor](#)
- [Establishing an Office](#)
- [Franchising](#)
- [Direct Marketing](#)
- [Joint Ventures/Licensing](#)
- [Selling to the Government](#)
- [Distribution and Sales Channels](#)
- [Selling Factors/Techniques](#)
- [Electronic Commerce](#)
- [Trade Promotion and Advertising](#)
- [Pricing](#)
- [Sales Service/Customer Support](#)
- [Protecting Your Intellectual Property](#)
- [Due Diligence](#)
- [Local Professional Services](#)
- [Web Resources](#)

Using an Agent or Distributor

[Return to top](#)

Local agents normally work as an exporter's sales representative on a commission basis, ranging from 5 to 15 percent of the sales price, depending on the nature of the product or service being offered. Specific responsibilities depend on the terms of the contract. The Embassy's Political/Economic Section can help in finding a buyer, partner, agent or distributor. Through the paid "Gold Key Service," the Section provides a list of pre-screened potential agents, distributors, sales representatives, and other strategic business partners in Nepal.

The distributor also buys and keeps goods in stock for resale, does local marketing, and handles after-sales product servicing as required. The distributor usually works on a profit margin so the commission rate and responsibilities (pricing, advertising, market promotion, after-sales service, etc.) should be defined in the contract. The distributor's commission in Nepal normally ranges between 15 to 30 percent, again depending upon the nature of the product. Use of a local distributor is more effective when selling consumer goods.

Hiring a commission agent to assist in winning a contract can be effective when selling development-oriented goods, such as construction services or heavy equipment, when selling to government departments or when competing in an international tender offer.

Establishing an Office

[Return to top](#)

The Company Act of 2006 requires that foreign firms wanting to do business in Nepal first register by submitting the following documents :

- a) A notarized copy or translation in Nepali or English of the law or license under which the company was incorporated and established;
- b) A notarized Nepali version of the memorandum and articles of the company;
- c) The complete address of the head office of the company;
- d) A list of the directors, managing agents, manager, secretary, etc. of the company along with their names, positions, contact details, and shareholdings, if any;
- e) The name and address of resident representative(s) of the company in Nepal empowered to accept on its behalf time limits, notices, etc. issued to it; and
- f) The proposed location where business will be, or is being, conducted in Nepal and the full address of the company's office.

Franchising

[Return to top](#)

Franchising is not yet common in Nepal. There is untapped potential for ventures that cater to the tourist, resident expatriate, and the local middle-class markets. A few U.S. franchise companies have entered the Nepali market, focusing on Kathmandu and Pokhara because they are major tourist centers that have a large market base. Under the Foreign Investment and Technology Transfer Act of 1992, the Department of Industry grants permission to establish franchises. Since trademark and brand names registered in a foreign country do not automatically qualify in Nepal for trademark protection, the trademark and brand name must first be registered in Nepal under the Patent, Design and Trademark Act of Nepal of 1965 to limit any possible infringement.

Direct Marketing

[Return to top](#)

Direct marketing is usually not cost-effective in view of the small local market for U.S. products and the country's generally unreliable postal service. Direct marketing via fax has been used to a limited extent, and local firms are increasingly interested in the commercial potential of the Internet. Nepal has 39 Internet Service Providers (ISPs), and many local businesses, tourist agencies, and industries have home pages. Eight satellite/cable TV networks in Kathmandu, six private TV channels and two state-owned broadcast TV channels offer additional marketing opportunities to reach audiences.

Joint Ventures/Licensing

[Return to top](#)

Nepal officially encourages foreign investment and technology transfer under the Foreign Investment and Technology Transfer Act (FITTA) of 1992. Investment in the form of equity shares and reinvestment of earnings from share capital and loans are defined as foreign investment. Under FITTA, technology transfer is any transfer made by agreement between an industry and a foreign investor as follows: (a) use of any technological right, specialization, formula, process, patent or technical knowledge of foreign origin; (b) use of any trademark of foreign ownership; and (c) acquiring any foreign technical consulting, management and marketing service. While technology transfer arrangements are legally permissible, the GON has not yet determined where they are to be registered.

Foreign investments through joint ventures or wholly foreign-owned enterprises are allowed in most industries. However, foreign investment is not permitted in defense-related industries, cigarettes, and alcohol (excluding 100-percent export-oriented industries). Potential investors are invited to contact the American Embassy for current information on prohibited industries.

Selling to the Government

[*Return to top*](#)

Under current government regulations, goods and services worth up to Rs. 150,000 (USD 1,980) can be purchased directly from the market. For goods worth between Rs. 150,000 (USD 1,980) and Rs. 1,000,000 (USD 13,200), procurement is to be made by inviting quotes from at least five suppliers. For amounts over Rs. 1,000,000, (USD 13,200), procurement should be made via tenders or bidding. For government procurement, the GON publishes its tenders by following the procedures mentioned under the Financial Administration Regulations of 1999. Goods and services are generally procured from the supplier or contractor who quotes the lowest price. Tender calls for major projects having a minimum lead time of 45 days are disseminated to U.S. businesses via the U.S. Department of Commerce Trade Opportunity Program (TOP). Many foreign firms find the use of a local distributor or commission agent effective in dealing with government sales, as many tenders have a lead time of less than two weeks for bid submission.

Distribution and Sales Channels

[*Return to top*](#)

The channel of distribution and sales used by most national and international manufacturers/sellers is the conventional three-fold distribution system -- manufacturer to distributor/wholesaler to retailer). Most U.S. exporters sell through a Nepal-based intermediary, such as a trading company or a local agent or distributor. Indirect local sales channels are best suited to selling U.S. goods and services in Nepal. Most high-value electronics, electric appliances and machinery products enter Nepal by air cargo via the Tribhuvan International Airport in Kathmandu. However, bulk goods such as foodstuffs, large machinery items, vehicles, fertilizer, construction materials, and various raw materials are brought by ships to Kolkata or the deepwater port in Haldia, India, and then shipped either via truck or rail. In the latter case, more than 90 percent of goods enter through the Raxaul-Birgunj crossing on the India-Nepal border. An Inland

Container Depot (ICD) at Birgunj started commercial operation in September 2004. Although at the start of its operation, the ICD handled only overseas consignments brought in via rail directly from Kolkata or Haldia, in February 2005 it began handling any cargo between Nepal and India. Major distribution centers in Nepal are Birgunj, Biratnagar, Bhairahawa, Nepalgunj, and Kathmandu.

Selling Factors/Techniques

[*Return to top*](#)

When selling in the local market, U.S. businesses should be aware that a local agent is generally necessary to conduct sales and marketing effectively. Foreign companies selling high volume and/or high-value products and services normally deal directly with buyers to meet a known demand rather than invest in promotional marketing. There are no specific packaging requirements and most products can use the English language for both sales and labeling purposes.

For product introduction, U.S. companies can visit potential buyers and make presentations or send product catalogs, brochures or other materials directly to the target customers via email, fax, post or courier. Alternately, companies planning to launch consumer products, or look for a local business partner normally use exhibitions, trade shows, trade missions, catalog and video shows, and advertising in newspapers, radio and television for market introduction and brand recognition. For companies/products that already have a presence in the Nepali market, participating in trade shows and catalog and video shows through a local agent/distributor can be an effective way to introduce new products into the market and to promote brand recognition.

Electronic Commerce

[*Return to top*](#)

The Internet had a late start in Nepal compared to many developing nations. As of December 2008 there were 39 Internet service providers operating with around 69,740 accounts, and the total number of Internet users was approximately 425,000 nationwide. Roughly 30% of these accounts are commercial, which primarily use the Internet to promote their products and services and communicate with foreign businesses. Activity is concentrated in Kathmandu and half a dozen other cities in Nepal. To date, relatively little business activity is online, but it is growing. As of February 19, 2009, there were 13,257 registered commercial websites out of a total of 16,228 registered websites in Nepal. Many businesses, such as airlines, hotels, and travel agents, rely heavily on the Internet when dealing with foreign partners.

Electronic commerce websites in operation are mostly based outside Nepal where credit card verification services are available. Credit card transfers, and transfers from e-banking websites are accepted but Nepalis who do not have a dollar account cannot make payments in foreign currency. Foreign exchange is regulated and is not freely available. There are a few business-to-business websites. The most popular ones are www.muncha.com, www.thamelmall.com, and www.bitarak.com. These sites are mostly used to send gifts during religious festivals. Overseas Nepalis are the most frequent users, and delivery of goods is done primarily within Nepal.

Newspapers, radio and television are the main advertising media used for trade promotion. Television reaches a very limited portion of local Nepali consumers, primarily the more affluent urban population, but newspapers and radio reach most parts of the country. Selection of advertising media thus depends on the target group. TV advertising is the most appropriate means to reach the urban middle and upper classes. For basic consumer products, advertising in newspapers and via radio is more appropriate. Advertising costs are lower for newspapers and radio than for television. Since the size of the market is so small, there are no BSP, FUSE or Single Company Promotion services available in Nepal. Names and addresses of major newspapers, and radio and television stations are given below. Inclusion in this list does not constitute U.S. Government endorsement.

1. The Rising Nepal (English-language daily)--Government-owned

Dharma Path

P.O. Box 23

Kathmandu, Nepal

Phone: 977-1-4255730, 4227493

FAX: 977-1-4244428

E-mail: gopa@gorkhapatra.org.np

Internet: <http://www.gorkhapatra.org.np>

2. The Kathmandu Post (English daily)

Shantinagar, Naya Baneshwor

P.O. Box 8559

Kathmandu, Nepal

Phone: 977-1-4480100

FAX: 977-1-4470178

Email: kanti@kpost.mos.com.np

Internet: <http://www.kantipuronline.com>

3. The Himalayan Times (English daily)

APCA House

Baidya Khana Road

P.O. Box: 11651

Anam Nagar, Kathmandu, Nepal

Tel: 977-1-4770504, 4771489

Fax: 977-1-4770701

E-mail: marketing@thehimalayantimes.com; advertisement@thehimalayantimes.com

marketing@apcanepal.com

Internet: <http://www.thehimalayantimes.com>

4. Radio Nepal

Singha Durbar

P.O. Box 634

Kathmandu, Nepal

Phone: 977-1- 4211896/ 4241921/ 4223910/ 4243569

FAX: 977-1- 4211952/ 4221951
Internet: <http://www.radionepal.org>
5. Nepal Television
Singha Durbar
P.O. Box 3826
Kathmandu, Nepal
Phone: 977-1-4228436
Fax: 977-1-4227452
Email: neptv@vishnu.ccsl.com.np
Internet: <http://www.catmando.com/ntv/>

6. Space Time Network Pvt. Ltd.
Channel Nepal
Business Development Division
Satellite Television Service,
Shantinagar, Kathmandu, Nepal
Phone: 977-1-4487750/1/2
Fax: 977-1-4487749
Email: space@col.com.np
Internet: http://www.spacetime.network.com/chan_nep04.htm

7. Subisu Cable Net Pvt. Ltd
Baluwatar
G.P.O. BOX: 6626
Kathmandu, Nepal
Tel: 977-1-4429616 -Hunting line; 4429617
Fax: 977-1-4430572; 4240165
E-mail: info@subisu.net.np
URL: <http://www.subisu.net.np>

Pricing

[Return to top](#)

Pricing formulas are determined by the availability of similar products, the level of demand for the product in the local market, and total costs required bringing the product to market. Before selecting a pricing strategy, the exporter should obtain as much information as possible from local agents, market research, potential customers, and competitors. Exporters should factor in various tariffs and taxes, which are levied on all imported products. Examples include: customs tariffs ranging from 5 percent for certain agricultural products to 80 percent for four-wheel vehicles; the 13 percent value-added tax (VAT) and the 1.5 percent local development tax. In the case of vehicle import, an additional excise duty of 32 percent is levied on the gross value, which includes the invoice price, customs tariff, VAT, local development tax, and special tax. Interested businesses can request hard copies of the complete tariff schedule directly from the Department of Customs:
<http://www.customs.gov.np/tariff.html>)

Pricing structures in Nepal are erratic. Imported goods are priced higher than locally produced goods. Prices of imported goods reflect transportation costs and other mark-ups. Indian manufactured goods, when available, are cheaper than imports from more

distant countries. When determining a price for U.S. products, the exporter should keep in mind competition from India, which has an open border with Nepal. Chinese manufactures, mainly consumer goods such as appliances, shoes, and textiles, find a ready market Chinese goods are imported via Tibet. Products from the European Union, Japan, South Korea, and Taiwan are also popular and help determine the local price for goods and services.

Sales Service/Customer Support

[*Return to top*](#)

After-sales service and product guarantees are very important for customers, especially for durable products. Given long shipping times to Nepal, doubts about after-sales service and availability of spare parts affect product choice. It is therefore preferable to make arrangements with a local agent/distributor for reliable customer service and support. Foreign companies selling vehicles, high-value machinery items, electrical appliances and electronics in Nepal have arrangements in place for such services with their local agents or distributors. Often the parent company provides the technical know-how and machinery for such services while the local company provides the actual services.

Protecting Your Intellectual Property

[*Return to top*](#)

In order to prevent infringement of intellectual property rights (IPR), patents and trademarks should be registered with Nepal's Department of Industries in accordance with the Patent, Design and Trademark Act of 1965. Nepal is not a signatory to any international conventions protecting patents, copyrights, or trademarks, so registration in the United States does not automatically result in protection in Nepal. When registering a trademark of foreign origin, a copy of the home registration with application form, deed of assignment and four copies of the representation sheet should be included in the application. Initial trademark registration is valid for seven years and can be renewed for an additional seven years. Similarly, the Copyright Act of 2002 offers only limited protection for copyrighted works, which must be registered in Nepal to qualify for protection. Nepal's accession to the World Trade Organization in April 2004 obligates Nepal to draft new legislation and to amend many laws to become compatible with WTO requirements. These binding provisions of the WTO also obligate Nepal to improve its trade practices and IPR protection regime regardless of the government in power. Please also refer to Chapter 6, the Investment Climate Statement.

Due Diligence

[*Return to top*](#)

U.S. businesses should check the bona fides of a Nepali company before appointing it as a local agent/ distributor and/or entering into a trade deal. Most Nepali business bona fides cannot be checked via traditional U.S. business channels. The Political/Economic Section of the U.S. Embassy in Kathmandu will prepare an International Company Profile (ICP) for U.S. businesses on request. It is a paid service and normally routed through the Department of Commerce, U.S. Export Assistance Center nearest you. Businesses may wish to contact the following organizations to obtain profiles of some Nepali businesses.

Nepal Chamber of Commerce
E-mail: chamber@wlink.com.np, fax: 977-1-4229998

The Federation of Nepalese Chambers of Commerce and Industry
E-mail: fncci@mos.com.np, fax: 977-1-4261022

The Nepal-USA Chamber of Commerce and Industry
E-mail: nusacci@ccsl.com.np, fax: 977-1-4478020

Local Professional Services

[Return to top](#)

Use of a local attorney for preparing required documents can limit unnecessary delays in the process of finalizing business contracts with trading partners and other local agents. A list of local attorneys is available on the U.S. Embassy Kathmandu website: <http://kathmandu.usembassy.gov/>. On request, the Political/Economic Section of the U.S. Embassy also provides lists of companies for other professional services, such as market research agencies, advertising agencies, customs clearance houses, freight forwarding agencies and transport companies.

Web Resources

[Return to top](#)

Popular B2B websites: www.muncha.com, www.thamelmall.com, www.bitarak.com.

The Rising Nepal (Government Owned English daily):

<http://www.gorkhapatra.org.np>

The Kathmandu Post (English daily):

<http://www.kantipuronline.com/ktmpost.php>

The Himalayan Times (English Daily):

<http://www.thehimalayantimes.com>

Nepal's Department of Industries:

<http://www.doind.gov.np>

Department of Customs, GON:

<http://www.customs.gov.np/>

Nepal Chamber of Commerce:

<http://www.nepalchamber.org>

Federation of Nepalese Chambers of
Commerce and Industry:

<http://www.fncci.org>

U.S. Embassy Kathmandu website:

<http://kathmandu.usembassy.gov>

U.S. Export Assistance Center:

<http://www.buyusa.gov/home/us.html>

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 4: Leading Sectors for U.S. Export and Investment

- [Agricultural Sector](#)

Commercial Sectors

- [Medical Equipment and Drugs/Pharmaceuticals \(MED and DRG\)](#)
- [Aircraft and Aircraft Parts \(AIR\)](#)
- [Telecommunications Equipment and Services \(TEL\)](#)
- [Computers/Peripherals \(CPT, CSF\)](#)
- [Water Resource Equipment/Services \(WRE\)](#)
- [Franchising \(FRA\)](#)

Medical Equipment and Drugs/Pharmaceuticals (MED and DRG)

Overview

[Return to top](#)

	2007	2008	2009 (estimated)
Total Market Size	15.00	30.00	40.00
Total Local Production	0	0	0
Total Exports	0	0	0
Total Imports	13.93	26.31	NA
Imports from the U.S.	4.5	3.3	NA

Value in USD millions. Average exchange rate (selling rate of Central Bank) for USD 1 was NRs. 70.64 in 2007, and NRs. 65.51 in 2008 and NRs. 75.49 as of January 15, 2009.

Sales in this sector may continue to grow, as the quality of medical training and services a middle class can afford increases. At present, most imported drug and pharmaceutical products are imported from India. Demand in this sector has continued to grow in spite of the political situation. Similarly, total imports of medical equipment have increased over the last two years. The increase is largely attributed to the improvement in the security situation in the country. This market has the potential to further improve as the security situation improves, however, severe power supply situation may set back demand.

Best Prospects/Services

[Return to top](#)

X-ray machines, ultra sonographic machines, electrocardiogram machines and other testing equipment. Instruments and appliances used in medical, surgical, dental or veterinary sciences, including electro-medical and sight testing.

Opportunities

[Return to top](#)

Private sector medical facilities are expanding quickly in Nepal. In recent years, almost half a dozen medical colleges and hospitals have opened up in various parts of Nepal. These colleges and hospitals have a constant need for upgrading their testing and treatment facilities to make their services competitive and therefore import modern medical equipment on a regular basis.

Resources

[Return to top](#)

Most procurement and supply orders are placed in local newspapers. The Political/Economic Section of the U.S. Embassy posts such trade leads on the U.S. Embassy website: <http://kathmandu.usembassy.gov/> and the BuyUSA Nepal website: <http://www.buyusa.gov/nepal/en/>. For information on trade leads, U.S. businesses may contact the Commercial Specialist of U.S. Embassy Kathmandu, Mr. Tapas Gupta, at: GuptaTK@state.gov.

In Aircraft and Aircraft Parts (AIR)

Overview

[Return to top](#)

	2007	2008	2009 (estimated)
Total Market Size	5.00	NA	NA
Total Local Production	0	0	0
Total Exports	0	0	0
Total Imports	3.83	56.82	NA
Imports from the U.S.	5.5	2.5 till Nov 08	NA

Value in USD millions. Average exchange rate (selling rate of Central Bank) for USD 1 was NRs. 70.64 in 2007, and NRs. 65.51 in 2008 and NRs. 75.49 as of January 15, 2009.

The mushrooming of private airlines in Nepal in the early 1990s provided opportunities for the sale of short-hop passenger turboprop aircraft, both used and new. However, declines in the tourism industry during the first five years of the decade drove at least five domestic airlines into bankruptcy, and, as a result, adversely affected the market for aircraft and parts. Opportunities for growth in this sector may occur following a successful peace process and transition to democracy.

Best Prospects/Services

[Return to top](#)

All kinds of aircraft parts, accessories, and ground equipment accessories and spares.

Opportunities

[Return to top](#)

Domestic Nepali private airlines still in operation prefer twin-engine aircraft such as the Beechcraft 1900D, Canadian Twin Otter, and Dornier. One carrier operates a few Fokker-100 jet aircraft. The national flag carrier, Nepal Airlines Corporation (NAC), has traditionally preferred Boeing aircraft for its international routes, but financial problems and poor government stewardship have made it difficult for the airline to purchase new aircraft. The GON has recently initiated efforts to either purchase or lease at least two wide-body aircraft for NAC by mid-2009. However, NAC's current financial status makes the purchase a challenge. Though the size of the market is unpredictable, aircraft leasing companies might look for opportunities coming their way in mid-2009.

Resources

[Return to top](#)

Information pertaining to GON policies and regulations can be obtained from the regulator, Civil Aviation Authority of Nepal, via email: dgca@caanepal.org.np. For additional information and assistance, U.S. businesses may wish to contact the Commercial Specialist of the U.S. Embassy Kathmandu Mr. Tapas Gupta at: GuptaTK@state.gov.

Telecommunications Equipment and Services (TEL)

Overview

[Return to top](#)

	2007	2008	2009 (estimated)
Total Market Size	40.00	NA	NA
Total Local Production	0	0	0
Total Exports	0	0	0
Total Imports	34.32	110.26	NA
Imports from the U.S.	3.7	3.9	NA

Value in USD millions. Average exchange rate (selling rate of Central Bank) for USD 1 was NRs. 70.64 in 2007, and NRs. 65.51 in 2008 and NRs. 75.49 as of January 15, 2009.

Telecommunications services have witnessed significant growth over the past five years. Currently, there are four companies providing telephone services in Nepal. Of the four, government-owned Nepal Telecom is the biggest operator. The other three companies - a U.S.-Nepal joint venture, a Russia-Kazakhstan-Nepal joint venture, and an India-Nepal joint venture -- are gradually expanding their operations. Simultaneously, Nepal Telecom is also expanding its geographical reach and range of services, which offers excellent sales potential. Local microwave and cable TV services depend on U.S. firms for much of their equipment, as do Kathmandu's 18 satellite/cable TV networks. Due to Nepal's mountainous topography, satellite services for phone and Internet will likely find a market in Nepal.

Best Prospects/Services

[Return to top](#)

A wide variety of telecommunications equipment, including switching, radio and transmission equipment, telephone sets, videophones, and networking equipment.

Opportunities

[Return to top](#)

Nepal Telecom (NT) has established a mobile telephone service, is expanding its landline phone system, and will continue to issue tenders for optical fiber lines, digital switching equipment, and telephone sets. Nepal Telecom was converted into a public limited company in June 2004, but the GON still owns a majority of shares. On January 23, 2008, NT launched an initial public offering (IPO) to sell 15 million units of shares, a 10-percent stake in the company, but only managed to sell roughly 5 million units. The other three operators are expanding their reach and services and continue to offer opportunities for equipment sales. The World Bank has an ongoing telecommunications sector reform project, which might provide opportunities for U.S. companies.

Resources

[Return to top](#)

For information regarding Nepal Telecom ongoing and future projects, U.S. businesses may contact Nepal Telecom via email at: amarn.singh@ntc.net.np or visit their website at www.ntc.net.np. Information pertaining to GON policies and regulations can be obtained from the Ministry of Information and Communications, Telephone: 977-1-4242562; Fax: 977-1-4227310 and from the regulator, Nepal Telecommunications

Authority, E-mail: info@nta.gov.np, ntra@nta.gov.np, ntra@wlink.com.np, or via website at www.nta.gov.np. For further information and assistance, businesses may contact the Commercial Specialist at U.S. Embassy Kathmandu, Mr. Tapas Gupta at: GuptaTK@state.gov.

Water Resource Equipment/Services (WRE)

Overview

[Return to top](#)

	2007	2008	2009 (estimated)
Total Market Size	15.00	20.00	NA
Total Local Production	0	0	NA
Total Exports	0	0	NA
Total Imports	10.77	16.35	NA
Imports from the U.S.	1.80	2.80	NA

Value in USD millions. Average exchange rate (selling rate of Central Bank) for USD 1 was NRs. 70.64 in 2007, and NRs. 65.51 in 2008 and NRs. 75.49 as of January 15, 2009.

Nepal's large hydropower potential represents an enormous opportunity for U.S. investors for direct foreign investment or joint ventures with Nepali private, as well as public, sector enterprises. Nepal has some 83,000 megawatts in hydroelectric potential, but less than 1percent of this potential has been developed. The northern states of India bordering Nepal have chronic power shortages with limited domestic sources to meet the ever-increasing internal demand. Despite agreements struck with India in 1996 and 1997, which define the terms for joint development of hydropower projects (the Mahakali Treaty) and sanction cross-border trade in private electric power, the Indian power market has not yet significantly opened up to producers in Nepal. In a positive development, India's Electricity Act of 2003 removed major impediments and created potential power-trading opportunities with Nepal. In December 2006, Department of Electricity Development invited offers for foreign investment in three potential hydropower projects -- a 300 MW facility in Upper Karnali; the 402 MW-Arun III, and the 600 MW Budhi Gandi project. . On January 24, 2008, the Ministry of Water Resources decided to award the Upper Karnali project to the India power developer GMR Energy Ltd. On March 3, 2008, the Arun III project was awarded to the Indian public enterprise Sutlej Jal Vidyut Nigam.

Best Prospects/Services

[Return to top](#)

Hydropower projects, hydropower generation machines, turbines, generators, power control machineries, surveying instruments, and transmission wire are prospects for investment.

Opportunities

[Return to top](#)

Nepal has a variety of public and private hydroelectric projects. The \$300-million Mid-Marshyangdi Hydropower Project, constructed with financing by the German Development Bank, KfW, Nepal Electricity Authority, and the Government of Nepal became operational on December 14, 2008. The first fully private project -- the \$100-million, 36 MW Upper Bhote Koshi Project involving two U.S. firms, Harza Engineering and Panda Energy -- started commercial production in January 2001. These and other

projects developed by state-owned power producer Nepal Electricity Authority (NEA) offer substantial opportunity for equipment sales. While there are a number of large-sized hydropower projects, including Pancheshwore and Karnali-Chisapani, waiting for foreign investment, current prospects for equipment sales include the West Seti Project, which is being developed by an Australian-led consortium, and the Upper Karnali, and Arun III projects. When developed, these projects will offer a huge opportunity for equipment sales.

India's Electricity Act of 2003 allows Indian consumers to enter into a direct commercial relationship with a generating company or trader in Nepal. In such cases, the State Regulatory Commission will not regulate the price of power. The Electricity Act also granted customs and excise duty waivers on imports of power and a 10-year tax holiday. Nepal's Department of Electricity Development grants licenses for projects developed by both foreign and domestic private sector investors. The NEA has been granted a license by the government to develop the 309 MW Upper Tamakoshi hydropower project, which offers significant potential for equipment sales.

Resources

[Return to top](#)

Information pertaining to projects offered for private development, policies and regulations can be obtained from the regulator, Department of Electricity Development, via email: doed@pshdp.wlink.com.np, or access further information via website at <http://www.doed.gov.np>. For opportunities in projects developed by the Nepal Electricity Authority, U.S. businesses may wish to contact: nea_misd@info.com.np, or access further information via website at www.nea.org.np. For additional information and assistance businesses, please contact the Commercial Specialist at U.S. Embassy Kathmandu, Mr. Tapas Gupta, at: GuptaTK@state.gov.

Insert Computers/Peripherals (CPT, CSF)

Overview

[Return to top](#)

	2006	2007	2008 (estimated)
Total Market Size	25.00	40.00	45.00
Total Local Production	0	0	NA
Total Exports	0	0	NA
Total Imports	21.38	34.43	NA
Imports from the U.S.	0.37	0.36	NA

Value in USD in millions. Average exchange rate (selling rate of Central Bank) for USD 1 was NRs. 70.64 in 2007, and NRs. 65.51 in 2008 and NRs. 75.49 as of January 15, 2009.

Computer hardware and other peripheral equipment manufactured in the U.S. are mostly transshipped through Hong Kong and Singapore, and therefore are not reflected in the U.S. import figures.

U.S. computers and peripheral equipment remain highly competitive in the local market. U.S. brands enjoy strong preference and loyalty from buyers. Over the years, the visibility of U.S. products has increased significantly. Leading U.S. companies in this sector are represented through their authorized distributors and representatives in Nepal. In view of market size, volatility of sales, and legal restrictions in opening a sales outlet, U.S. companies are advised to hire a distributor/representative.

Best Prospects/Services

[Return to top](#)

Computer components, hardware, monitors, and uninterrupted power sources.

Opportunities

[Return to top](#)

Total annual imports of computer hardware are estimated at \$35 million to \$45 million, generally involving goods transshipped through Hong Kong or Singapore. Customs statistics understate the U.S. market share because American equipment is often imported via distributors in intermediate ports and therefore not captured in official statistics. Since the market size is extremely small and opportunities for regional re-export are negligible, investment opportunity in this sector is not available.

Resources

[Return to top](#)

The Computer Association of Nepal (CAN) organizes an annual trade event entitled CAN Info-Tech. It is an event for showcasing IT innovations, products and services. A record number of 463,000 visitors attended the show held from January 14 to January 19, 2009. For further information, businesses may wish to contact: The Computer Association of Nepal at: info@can.org.np, or visit their website at www.can.org.np. Information pertaining to GON policies and regulations can be obtained from the High Level Commission for Information Technology, E-mail: info@hlcit.gov.np or via its

website at www.hlcit.gov.np. For other information and assistance, businesses may wish to contact the Commercial Specialist of U.S. Embassy Kathmandu, Mr. Tapas Gupta, at: GuptaTK@state.gov.

Franchising (FRA)

Overview

[Return to top](#)

	2007	2008	2009 (estimated)
Total Market Size			
Total Local Production			
Total Exports			
Total Imports			
Imports from the U.S.			

(No data for franchising is available)

Very few franchises exist in Nepal. Significant untapped potential exists with only a few foreign companies currently in the fast food/dessert market. Due to the sizeable tourist presence and expatriate communities in cities such as Kathmandu and Pokhara, franchising potential exists in sectors such as fast food, coffee houses, clothing and sports equipment. While there is no long-term track record for the performance of franchised businesses within the Nepali market, foreign companies, mostly Indian, are entering the market.

Best Products/Services

[Return to top](#)

Fast food chain restaurants.

Opportunities

[Return to top](#)

Although the present franchise market is very small -- an estimated \$4.25 million in 2004 -- it has potential. Demand is 70 percent from locals and 30 percent from foreigners. There are no known Nepal-based companies that franchise. Market growth is projected at 25 percent through the first few years of establishment. Key benefits of a franchise lie in brand name equity and quality consistency. Market entry should take a long-term view. With an annual tourist arrival of approximately 400,000 and a sizeable expatriate community, fast food franchises hold excellent potential in Kathmandu and Pokhara. A more favorable climate for expansion of franchises to cities such as Birgunj, Biratnagar, and Bhairahawa is expected when the security situation of the country improves and political stability is regained.

Resources

[Return to top](#)

Since the franchise sector is a potential growth sector, research data or trade leads are not available. The Political/Economic Section of the U.S. Embassy keeps track of strong expressions of interest in U.S. franchises by the local business community. For information on potential local partners, U.S. businesses may contact the Commercial Specialist of U.S. Embassy Kathmandu, Mr. Tapas Gupta, at: GuptaTK@state.gov.

Agriculture accounts for approximately 32 percent of gross domestic product (GDP) and 70 percent of employment in Nepal. The shortfall in domestic consumption and production of agricultural products is mostly met by imports from India because Indian agricultural products are competitive in terms of cost and quality. Geographical proximity, a porous border and traditional trade relations give Indian agricultural products easy access to Nepali markets. The purchasing power of the average Nepali is very low, so the potential market for U.S. agricultural products is very limited because of their higher cost.

[Return to table of contents](#)

Chapter 5: Trade Regulations and Standards

- [Import Tariffs](#)
- [Trade Barriers](#)
- [Import Requirements and Documentation](#)
- [U.S. Export Controls](#)
- [Temporary Entry](#)
- [Labeling and Marking Requirements](#)
- [Prohibited and Restricted Imports](#)
- [Customs Regulations and Contact Information](#)
- [Standards](#)
- [Trade Agreements](#)
- [Web Resources](#)

Import Tariffs

[Return to top](#)

Import tariffs are generally assessed on an *ad valorem* basis. Nepal uses the Harmonized Tariff System (HTS) for classification purposes. Import duty rates vary from zero to 80 percent. Live animals, fish, and most primary products are exempt from import duties. Machinery or goods related to basic needs are charged at a 5-percent rate. Products hazardous to health, such as cigarettes, are taxed at 80 percent and liquors are taxed at 40 percent. Custom duties are generally assessed on the cost, insurance, and freight (CIF) value. Imported goods imported are also liable for a value-added Tax (VAT) of 13 percent and a local development tax of 1.5 percent, both of which are levied on CIF plus customs duty value.

Special Duty Reductions of 5 or 10 percent have been given to imports from the Tibet Autonomous Region of the People's Republic of China, member countries of the South Asian Association for Regional Cooperation (SAARC) and designated most favored nations.

Nepal has not established Export Processing Zones (EPZ). However, any industry exporting 90 percent or more of its products is entitled to privileges equivalent to those normally provided by an EPZ -- i.e., no tax, duty or fee is levied on the machinery, tools and raw materials utilized by the industry in manufacturing the exported products. Export-oriented industries may also enjoy the benefits of bonded warehouse facilities. Raw materials can be imported via entry in a passbook without paying any custom duty or VAT. The same value of raw materials is deducted from the passbook upon export of the finished product. The enterprise must also submit a bank guarantee sufficient to cover applicable duties.

Trade Barriers

[Return to top](#)

There are no major tariff or non-tariff trade barriers on imports. Technical standard barriers are applied to a very small number of manufactured products, such as vehicles and refrigerators. Vehicles imported into Nepal must qualify under the Euro I standard, and refrigerators must be chlorofluorocarbon (CFC) gas-free.

Import Requirements and Documentation

[Return to top](#)

Documents required for shipment to Nepal include a commercial invoice, a customs declaration form (CDF), clearly marked and labeled packaging, and a certificate of origin. Similarly, exported items sent by air require a CDF, a copy of the export license (if applicable), a commercial invoice, a certificate of origin, a copy of the letter of credit or advance payment statement from a bank, a foreign exchange declaration form, a packing list, a photocopy of the income tax registration certificate, an airway bill, and an authorization letter.

All imports may be brought in without a license except for banned or quantitatively restricted items, such as (a) products injurious to health, including illicit drugs (See section on Prohibited Imports further in this chapter); (b) arms and ammunition, explosive materials, or products required for production of explosive materials, and guns and bullets; (c) communications equipment, wireless walkie-talkies and other similar audio-communication equipment, except under government import license; (d) valuable metals and jewelry; and (e) beef and beef products (dietary restrictions of the majority Hindu religion prohibit the consumption of beef). The GON does not require open general licenses for imports.

Traders need to show their general export/import license and taxpayer's certificate to import the goods they deal in. If the end user -- for example, a project office, a company or an institution is importing goods directly, it will have to produce a copy of its corporate registration certificate and taxpayer's certificate in order to obtain both foreign currency approval from Nepal Rastra Bank (Nepal's central bank) and customs clearance of the consignment.

U.S. Export Controls

[Return to top](#)

All products, other than those banned or those under quantitative restrictions may be exported freely from Nepal. Banned items include articles of archeological and religious importance, controlled wildlife and by-products, narcotic substances, articles related to explosive materials or required for the production of arms and ammunition, industrial raw materials (such as raw leather, raw wool, imported raw materials, parts, capital goods), and other goods such as logs and timber. Items subject to quantitative restriction are subject to notification by the GON from time to time. Past examples have included food grains, oilseeds, and some types of lentils. As a rule, the re-export to India of goods not of Indian origin is prohibited. Other than banned items, there are no U.S. government export controls companies must abide by when exporting to Nepal.

Temporary Entry

[Return to top](#)

Goods -- including vehicles, machinery, and equipment -- may be imported temporarily for special purposes, such as domestic exhibitions or trade fairs, by making a refundable deposit of the applicable duty. These goods must be taken out of the country within three months of the completion of work. Goods can stay in-country if the duty has been paid and the item is sold or retained for personal use. An extension of the three-month period may be granted on appropriate and reasonable grounds upon payment of an additional ten percent of the applicable duty amount. If the duty is not paid or the goods are not re-exported within six months of entry, the GON may bring smuggling charges. The GON places no legal restrictions requiring warranty for products imported temporarily for a specific purpose.

Labeling and Marking Requirements

[Return to top](#)

Nepali law requires no special labeling or marking. For customs purposes, the packaging and labels of a shipment should clearly identify country of origin and destination and include a commercial invoice with a list of items in the package, a customs declaration form (CDF), and a certificate of origin. Department of Customs information can be found via website at <http://www.customs.gov.np>.

Prohibited and Restricted Imports

[Return to top](#)

The following products are prohibited for import:

1. Products injurious to health: a) narcotic drugs such as opium and morphine; and b) liquor containing more than 60 percent alcohol.
2. Arms, ammunition and explosives (except under government import license): a) materials used in the production of arms and ammunition; b) guns and cartridges; c) caps other than those of paper; and d) arms, ammunition and other explosives.
3. Communications equipment: wireless walkie-talkies and other similar audio communication equipment (except under import license of the GON).
4. Valuable metals and jewelry (except permitted under bag and baggage regulations).
5. Beef and beef products.
6. Any other product as per notification of the GON in the *Nepal Gazette*, published by the Department of Printing. Such notices can be obtained from the Department of Printing by making a request to the Director General at fax: 977-1-4228774.

Customs Regulations and Contact Information

[Return to top](#)

All customs-related information, tariff structures, special provisions, rules and regulations are available at the Department of Customs website, <http://www.customs.gov.np>. Specific questions related to customs can be forwarded to the Department by e-mail: npdoc@ntc.net.np.

Standards

[Return to top](#)

- [Overview](#)
- [Standards Organizations](#)
- [Conformity Assessment](#)
- [Product Certification](#)
- [Accreditation](#)
- [Publication of Technical Regulations](#)
- [Labeling and Marking](#)
- [Contacts](#)

Overview

[Return to top](#)

Nepal generally follows internationally recognized standards; it does not follow the ISO 9000 series. Standards-establishing bodies include the Nepal Bureau of Standards and Metrology and the Department of Drug Administration. Food product standards are generally set under the Food Act and Nepal Standard (Certification Mark) Act. The law regarding the import of products other than food products, cars and refrigerators does not mandate any standards. The then-Ministry of Population and Environment, now the Ministry of Environment, Science and Technology, introduced the Nepal Vehicle Mass Emission Standards Act in December 1999 to control pollution. These standards are similar to EURO 1, and comprise levels of nitrogen with provision for type approval and conformity of production of the vehicles.

Standards Organizations

[Return to top](#)

The Nepal Bureau of Standards and Metrology (NBSM) is the only agency authorized to develop technical standards for different products. NBSM is currently working on developing standards and labeling programs for electrical appliances. The Department of Drug Administration regulates the consumption and quantification of modern drugs for human use in Nepal.

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade to report to the WTO all proposed technical regulations that could affect trade with other member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

Conformity Assessment

[Return to top](#)

Standards for testing the quality of food and the processes for testing food products are governed under the Food Act and Nepal Standard (Certification Mark) Act, which requires the importer to have a sample tested by the Department of Food Technology and Quality Control. The Department of Drug Administration approves the consumption and quantification of modern drugs for human use and issues licenses to import any drugs to Nepal. Quantification of modern drugs for human use is governed under the Cosmetics, Devices and Drugs Act 1980.

Product Certification

[Return to top](#)

Except for drugs/medicines, no product certification is required for branded products. For drugs/medicines, the importer must obtain prior approval from the Department of Drug Administration. Certification is not required for patent drugs manufactured by recognized manufacturers in those cases where the Department of Drug Administration has already approved the drugs' chemical composition.

Accreditation

[Return to top](#)

There are no accreditation bodies in Nepal. Accreditation of labs is not required.

Publication of Technical Regulations

[Return to top](#)

Finalized acts and regulations issued by the GON are published in the *Nepal Gazette* and are made available by the Department of Printing. U.S. entities can comment or challenge these regulations by email or notification to the appropriate department.

Labeling and Marking

[Return to top](#)

Nepali law does not mandate special labeling or marking. For customs purposes, the packaging and labels of a shipment should clearly identify country of origin and destination and include a commercial invoice with a list of items in the package, a customs declaration form, and a certificate of origin.

Contacts

[Return to top](#)

1. Nepal Bureau of Standards and Metrology (NBSM)
Balaju
P.O. Box 985
Kathmandu, Nepal
Telephone: 977-1-4356810, 4350818
Fax: 977 1 4350689
E-mail: nbsm@nbsm.gov.np
Director General: Sita Ram Joshi

2. Department of Drug Administration
Madan Bhandari Path-4
Bijulibazar, New Baneshwor
Kathmandu, Nepal
Telephone: 977-1-4780432, 4780227
Inspection Hotline: 977- 01-2042383
Facsimile: 977-1-4780572
Email: dda@healthnet.org.np; director@dda.gov.np
Chief Drug Administrator: Radha Raman Prasad
Pharmacist-in-Charge: Vijay Laxmi Shrestha

3. Department of Printing
Ministry of Information and Communications

Singha Durbar
Kathmandu, Nepal
Phone No: 4-211622, 4-211783, 4-211695
Fax No: 977-1-4-211764
Email: info@dop.gov.np
Director General: Kedar Bahadur Bogati

4. Ministry of Environment, Science and Technology
Singha Durbar
Kathmandu, Nepal
Telephone: 977 (1) 4211661, 4211709, 4211860, 4211617, 4211698, 4211641
Facsimile: 977 (1) 4211754
Email: info@most.gov.np
Website: <http://www.moest.gov.np/>

5. Department of Food Technology and Quality Control
Government of Nepal
Ministry of Agriculture and Cooperatives
Babarmahal
P.O. Box 21265
Kathmandu, Nepal
Telephone: 977-1-4262369, 4262741, 4251132; Ext: 202, 211
Facsimile: 977-1-4262337
Email: info@dftqc.gov.np
spsnepal@ntc.net.np
dftqc@mail.com.np
Website: <http://www.dftqc.gov.np>
Director General: Mr. Uttam Kumar Bhattarai

6. Ministry of Agriculture and Cooperatives
Agribusiness Promotion Section
Ministry of Agriculture and Cooperatives
Singha Durbar
Kathmandu, Nepal
Phone: 4211687, 4211706, 4211950, 4211981; Ext.: 219
Fax: 977-1- 4211935, 4211839
Email: hbtiwari@moac.gov.np
Email: hari_babutiwari@yahoo.co
Senior Agricultural Economist: Dr. Haribabu Tiwari

For further information on standards businesses may contact the Commercial Specialist at U.S. Embassy Kathmandu, Mr. Tapas Gupta, at: GuptaTK@state.gov

Trade Agreements

[Return to top](#)

Multilateral:

Nepal has ratified the South Asian Association for Regional Cooperation (SAARC) Agreement on a South Asian Free Trade Area (SAFTA). Signed at the 12th SAARC summit held in January 2004, the SAFTA agreement came into effect in January 2006 and subsumed the ongoing trade liberalization process under the South Asian

Preferential Trade Agreement (SAFTA). Under SAFTA, the eight SAARC nations (Nepal, Bhutan, India, Bangladesh, Pakistan, Sri Lanka, Maldives, and the Afghanistan) have pledged to cut tariff rates on a product-by-product basis. Following the third round of trade negotiations in 1998, a total of 5,000 items, from all member countries, are now entitled to preferential duty treatment in one or another of the participating countries.

Nepal became the 147th member of the World Trade Organization (WTO) in April 2004. It is the first least developed country to join the WTO since 1995. Nepal was given until December 2006 to be in full compliance with its WTO obligations, but it did not meet this deadline because political instability made it impossible to implement the major changes in trade and customs-related laws and regulations compliance required. In February 2004, Nepal became a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which was founded in 1997. Other members include Bangladesh, Bhutan, India, Burma, Sri Lanka and Thailand. BIMSTEC's objectives are similar to those of WTO, except that it seeks to establish a much more comprehensive free trade area through deeper and substantial sector coverage of services and an open and competitive investment regime. A BIMSTEC free trade agreement on goods was expected to be finalized in the second summit in New Delhi in November 2008, but it did not materialize. The BIMSTEC Trade Negotiating Committee was directed to conclude the negotiations on trade in goods as soon as possible and to continue its efforts for agreements on services and investments.

Bilateral:

Nepal has signed bilateral trade treaties with 17 countries. The treaty signed with India in 1996 is the most important in terms of trade volume and relationship. Out of Nepal's total trade of USD 4.42 billion in FY 2007/08, trade with India accounted for 63.8 percent. Except for some items under quantitative restrictions, the trade treaty puts Nepal in a unilateral duty-free trade regime with India.

Web Resources

[Return to top](#)

WTO and Nepal: http://www.moics.gov.np/wto_&_nepal/index.html

NEPAL and the BIMSTEC: <http://www.mofa.gov.np/bimstec.htm>

BIMSTEC Official Site: <http://www.bimstec.org/>

Bilateral Trade Treaties: <http://www.tpcnepal.org.np/tagree/tradeagreement.htm>

Department of Customs: <http://www.customs.gov.np>

Ministry of Environment, Science & Technology: <http://www.moest.gov.np/>

[Return to table of contents](#)

Chapter 6: Investment Climate

- [Openness to Foreign Investment](#)
- [Conversion and Transfer Policies](#)
- [Expropriation and Compensation](#)
- [Dispute Settlement](#)
- [Performance Requirements and Incentives](#)
- [Right to Private Ownership and Establishment](#)
- [Protection of Property Rights](#)
- [Transparency of Regulatory System](#)
- [Efficient Capital Markets and Portfolio Investment](#)
- [Political Violence](#)
- [Corruption](#)
- [Bilateral Investment Agreements](#)
- [OPIC and Other Investment Insurance Programs](#)
- [Labor](#)
- [Foreign-Trade Zones/Free Ports](#)
- [Foreign Direct Investment Statistics](#)
- [Web Resources](#)

Openness to Foreign Investment

[Return to top](#)

Since taking power in August 2008, the current Maoist-led Government of Nepal (GON) has signaled to foreign investors that Nepal is open for business. However, continuing bureaucratic delays and inefficiency, political instability, pervasive corruption, labor difficulties and persistent insecurity send a different message. At present, there are 1,570 foreign investment projects in Nepal, worth a total of approximately USD 2.13 billion, according to official GON statistics. With 414 ventures, India accounts for nearly 45 percent of total foreign investment. The 142 U.S. ventures rank second, accounting for 10.4 percent of total investment. China, South Korea, the United Kingdom and Norway are also prominent sources of foreign investment.

In 2005, the GON opened some service sectors to foreign investment. Progress has been made in allowing private operations in sectors that were previously government monopolies, such as telecommunications and civil aviation. Licensing and regulations have been simplified, and 100-percent foreign ownership is now allowed in some sectors. New banking institutions and a small stock exchange provide alternative sources of investment capital.

Nevertheless, significant problems remain. Basic infrastructure needed to support investment is woefully inadequate. The supply of power, especially outside of Kathmandu Valley, and water is insufficient. Transport is difficult, a problem compounded by the fact that Nepal is landlocked. (All products imported by ship enter through Kolkata, India, and are then shipped overland.) Nepal also lacks trained personnel and basic raw materials. Added to these challenges foreign investors face

are the facts that tax administration is non-transparent and capricious, commercial legislation is inadequate and obscure, rules governing labor relations are vague and changeable, and obtaining a long-term visa is difficult. Furthermore, there is often a wide discrepancy between the letter of the law and its implementation.

Foreign investors constantly complain about complex and opaque government procedures and a working-level attitude that is more hostile than accommodating. Efforts intended to establish a "one window policy" and streamline government procedures related to foreign investment have produced few results. The GON has long been aware of the deficiencies in the investment climate and has slowly moving toward more investor-friendly arrangements. The Foreign Investment and Technology Transfer Act of 1992, for example, abolished the minimum capital investment requirement and eliminated other significant barriers to investment. The Act also allowed investment in legal, management consulting, accounting and engineering services, with a 51-percent limit on foreign ownership.

Policies regarding hydropower generation have changed to open the sector to private development, and the government is committed to revising the Electricity Act under which hydro-power generation licenses are granted. A policy intended to simplify the licensing procedure and to break the monopoly of the Nepal Electric Authority (NEA) over all aspects of generation, transmission and distribution was announced in October 2001. These changes were expected to boost the flow of foreign investment into the hydropower sector, but few have been implemented. The licensing process remains lengthy and cumbersome, and the government has not yet passed the legislation needed to unbundle the NEA's functions and create an independent regulatory body.

A few sizable private-sector hydropower projects have either begun operation or are in the planning stages. However, unreasonable delay in evaluation of hydropower survey license applications, a poor security environment and political instability continue to discourage long-term investment in this sector. Private sector development of hydropower for export has also been limited by domestic politics and the government's inability to finalize a blanket electric power trade agreement with India, the only potential export market. A severe power shortage forced the government to declare an "energy crisis" in the country on December 17, 2008. To alleviate the power deficit, the Cabinet announced plans to set up diesel-powered "thermal plants" that would add 200 MWs to the national grid, but then backed off the plan following widespread protests. Subsequently however, the GON is currently considering scrapping certain regulatory requirements to expedite issuance of survey licenses to domestic and foreign private investors and to provide extra incentives, for at least for the next two years, to promote investment in hydropower projects.

Legislation

The most significant foreign investment laws are: the Foreign Exchange (Regulation) Act of 1962; the Foreign Investment and One Window Policy of 1992; the Foreign Investment and Technology Transfer Acts of 1992; the Immigration Rules of 1994; the Customs Act of 1997; the Industrial Enterprises Act of 1992; the Electricity Act of 1992; the Privatization Act of 1994 and the annual Finance Act that is passed every fiscal year, which outlines customs, duties, export service charges, sales, airfreight and income taxes, and other excise taxes that affect foreign investment.

The Foreign Investment and One Window Policy lists acceptable forms of investment, allows for foreign shares up to 100 percent in business areas not on its "negative list," establishes currency repatriation guidelines, and outlines visa arrangements, arbitration guidelines, and a special "one window committee" for foreign investors. The Foreign Investment and Technology Transfer Act (FITTA), which was revised in 1996, eliminated the minimum investment requirement and clarified rules relating to business and resident visas. In general, under the FITTA all agreements related to foreign investment are governed by Nepalese law and subject to arbitration in Kathmandu under United Nations Commission for International Trade Law rules. However, foreign law can be applicable in cases where the foreign investment exceeds 500 million rupees (approximately USD 7.9 million) and where the parties make this choice clear in their agreement.

The Immigration Rules of 1994 describe visa regulations. The Customs Act and the Industrial Enterprises Act, revised in 1997, established invoice-based customs valuations and eliminate many investment tax incentives, installing in their place a lower, uniform rate. The Electricity Act defines special terms and conditions for investment in hydropower development. The Privatization Act of 1994 authorizes and defines the procedures for privatization of state-owned enterprises to broaden participation of the private sector in the operation of such enterprises.

Additionally, the 1965 Patent, Design and Trademark Act and the 2002 Copyright Act define the terms and conditions of intellectual property rights protection. The Copyright Act, which covers all types of electronic audio and visual materials, provides for financial penalties, as well as imprisonment, and allows for the confiscation of unauthorized materials. Violators also have to pay compensation claimed by the copyright holder. However, the revised Copyright Act is not up to the level required for trade-related intellectual property rights by the World Trade Organization. Revisions are likely, as Nepal acceded to the WTO in April 2004.

Institutional Arrangements

The Department of Industry is designated as the "one window servicing agency," with the Industrial Promotion Board (IPB) as a focal point for foreign investment. The Department of Industry facilitates corporate registration, land transfers, utility connections, administrative services agreements, and coordination among various agencies. The Industrial Promotion Board (IPB), chaired by the Minister of Industry, is the primary government agency responsible for foreign investment. The IPB is charged with coordinating policy-level institutions, establishing guidelines for economic policy, approving foreign investment proposals, and determining applicable investment incentives. The Department of Industry (under the Ministry of Industry) registers and classifies foreign investments. It also serves as the secretariat for the "one window servicing agency," which manages the income tax and duty drawbacks granted to some foreign investments. However, on January 28, 2009, the GON introduced the "Investment Board Ordinance 2009", which provisioned formation of a high level Investment Board under the chairmanship of the Prime Minister, and the Industry Minister as the ex-officio vice-chairman. Intended to function as a one-stop project clearance body, the new ordinance, which is currently pending with the cabinet, has authorized the Investment Board to approve any project proposals and monitor the progress on the activities of the projects.

Current administrative procedures do not allow for automatic approval of foreign investments. Foreigners are required to obtain licenses for manufacturing or service sector investments, and each license request must be considered individually. Investments below 1 billion rupees (approximately USD 13.2 million) are referred to the Department of Industry for action and are typically approved at the departmental level without the involvement of the IPB. However, investors frequently complain about bureaucratic delays and lack of transparency in procuring investment licenses. In most cases, one to six ministries other than the Ministry of Industry review a business proposal prior to consideration by the IPB.

The Department of Electricity Development, under the Ministry of Water Resources, is responsible for licensing all investments in hydropower projects. However, decisions on project proposals that involve foreign investment are invariably taken by the Ministry of Water Resources itself. Similarly, Nepal Rastra Bank (NRB), the country's central bank, is responsible for issuing licenses to operate commercial banks and financial institutions. The Insurance Board (IB) is responsible for issuing licenses to operate insurance companies, both life and general. The Civil Aviation Authority of Nepal (CAAN) is responsible for granting operating licenses to both domestic and foreign airline operators, and the Nepal Telecommunications Authority (NTA) is responsible for issuing licenses for operating any type of telecommunications and information technology services.

Licensing of new investments is often time-consuming and requires a good lawyer and great patience. The IPB is mandated by law to make a licensing decision within 30 days of submission of an application, but this deadline is not generally met because of the legal proviso that all necessary information must have been submitted before a decision can be made. In practice, multiple meetings are usually required before the information is deemed sufficient.

Eligible Sectors

Foreign investment proposals must fall within eligible industry categories. These include: agriculture and forestry; manufacturing; electricity, both water and diesel-generated; construction; hotels and resorts; transport; communications; housing and apartments; and a restricted range of services. The GON opened service sectors, along with a few others, in December 2005 in order to comply with its commitments. The newly opened sectors include business and management consulting, accounting, engineering and legal services, travel and trekking services, tourist lodging, international retail sales services, and production of alcohol or cigarettes. Foreign investment is forbidden in the defense sector, and the IPB will not license foreign investments that are judged to be either hazardous to general health or the environment.

Foreign investors are permitted to acquire real estate in the name of the business entity they own, but are not allowed to acquire real estate as personal property. Although local law permits foreign investors to buy shares on the local stock exchange, in practice investment in the stock exchange is not yet open to foreign investors. This is due mainly to the provisions of the Foreign Investment and Technology Transfer Act of 1992 which requires approval by the Department of Industry for a foreigner to buy shares in a Nepalese company. Also, in cases of investment in banks and insurance companies, prior approval of the regulator is required. Further, approval of Nepal Rastra Bank is

also required for such purchase of shares under the Foreign Exchange (Regulation) Act 1962. All of these hurdles make investment in the local stock market unattractive to foreign investors.

Foreign investors are allowed to buy shares of government corporations by participating in the bidding for privatization of such corporations. In such cases, Nepal's Ministry of Finance sells the shares to the buyer after carrying out a lengthy screening during the bidding process. Through a July 2006 amendment in the licensing policy of financial institutions, the NRB increased the maximum foreign equity participation limit in domestic financial institutions to 85 percent from 67 percent. With the amendment, equity participation of foreign investors in joint venture financial institutions can range between 20 percent and 85 percent, with the remaining shares open for purchase by the general public. Joint venture financial institutions with less than 50 percent foreign equity participation are required to earmark at least 30 percent of their shares for sale to the general public.

The Privatization Act of 1994 generally does not discriminate between national and foreign investors. However, in cases where proposals from two or more investors are identical, the government gives priority to Nepali investors. To date 15 state-owned corporations have been privatized, seven corporations have been liquidated and two other corporations have been closed. The last privatization completed by the government was in January 2006. Out of the 15 corporations privatized so far, foreign investors have taken over two of them. The privatization process of three other state-owned corporations, which began in early 2006, was put on hold in April 2006. The current government, headed by the United Communist Party of Nepal (Maoist) and supported by the CPN-United Marxist Leninist, is in principal opposed to the privatization of state-owned corporations. Since coming to power in August 2008, the current government has not demonstrated any willingness to restart the privatization process. In fact, government ministers often express their support for reviving moribund state-owned corporations.

On April 13, 2004, the state-owned telecom operator, Nepal Telecommunications Corporation (NTC), was converted into a company and the name changed to Nepal Doorsanchar Company Limited (commonly known as Nepal Telecom), but ownership of the company remained entirely with the government. It is among few state-owned enterprises that have been earning good returns for years largely due to their historical monopolies. At the time of conversion of NTC into a company, the estimated amounts of paid-up capital and authorized capital of the corporation stood at 15 billion Nepali rupees (USD 238 million) and 25 billion Nepali rupees (USD 397 million) respectively. On January 23, 2008, Nepal Telecom launched an initial public offering (IPO) to sell 15 million shares, a 10-percent stake in the company. It also offered a 5-percent stake in the company, 7.5 million shares, to its employees as required by the government. The IPO fell well short of government expectations with the public purchasing roughly five million shares. In the budget speech in September 2008, the Finance Minister announced that the unsold shares will be sold through secondary markets.

Since 2003 the World Bank has been working to restructure two of the largest state-owned commercial banks, the Rastriya Banijya Bank ("National Commercial Bank" or RBB) and Nepal Bank Limited (NBL) to prepare them for privatization. However, the

reform, revitalization, and professionalization of these institutions are long-term tasks, and the banks are not expected to be ready for privatization until late 2009 or 2010.

Visas

The GON offers different types of visas to investors and businesses. Potential investors are generally given six-month visas to conduct research and feasibility studies. To obtain a six-month visa, applicants must provide biographic information and a description of relevant work and professional experience. If the Department of Industry can readily identify the applicant as a legitimate business representative, the process can be expedited. Endorsement by a recognized foreign industrial enterprise is one means of accomplishing this. The Foreign Investment and Technology Transfer Act allows foreign investors to have one residential representative in Nepal. In cases where the foreign investor wishes to have more than one representative, the visa process becomes difficult. In the past, investors have even had problems obtaining visas for a second foreigner to serve as general manager responsible for their Nepalese operations.

Business visas are generally issued to approved investors for a period of one to five years. However, investors describe the business visa process as bureaucratic and time-consuming. Many say they spend more than 24 work hours per visa, over a period of 20 to 30 days.

Although the GON authorized the issuance of five-year, multiple-entry visas to resident foreign investors and their families in 1998, very few have been issued. In 1999, Nepal lowered its business visa fees; fees range from USD 250 for a five-year visa to USD 100 for a one-year visa. A non-tourist visa, however, costs USD \$60 per month for the initial six-month period. This visa period can be extended for another six months or more at an additional \$60 per month.

Conversion and Transfer Policies

[Return to top](#)

The Foreign Investment and Technology Transfer Act of 1992, permits foreign investors to repatriate all profits and dividends, all money raised through the sale of shares, all payments of principal and interest on any foreign loans, and any amounts invested in transferring foreign technology. Foreign nationals working in local industries are also allowed to repatriate 75 percent of their salaries, allowances, and emoluments, etc. Repatriation facilities (such as opening accounts or obtaining permission for remittance of foreign exchange) are made available on the recommendation of the Department of Industry, which normally provides approval of the original investment.

However, convertibility is difficult and not guaranteed. Repatriation of any funds needs approval from the relevant GON department and Nepal Rastra Bank, which regulates foreign exchange. In most cases, approval must be obtained from the Department of Industry. In other cases, such as telecommunications, the Nepal Telecommunications Authority must approve the repatriation. In joint venture cases, NRB and the Ministry of Finance must approve. Because commercial banks only process applications and do none of the oversight, the process slows down when it reaches the NRB, which must verify the authenticity of all requests. In the end, an overworked and inefficient banking system is to blame for slow approval of foreign exchange facilities. The actual

experience of American and other foreign investors suggests that there are discrepancies between the government's stated policy of repatriation and its implementation.

To repatriate funds from the sale of shares, foreign investors apply to the NRB. For repatriation of funds connected with dividends, principal and interest on foreign loans, technology transfer fees, expatriate salaries, allowances, and emoluments, the foreign investor applies to the Department of Industry, and then to the NRB. At the first stage of obtaining remittance approval, foreign investors must submit remittance requests to a commercial bank. Generally, foreign investors rated services provided by private banks as satisfactory. However, final remittance approval must be made by the NRB foreign exchange department, at which stage the process slows down significantly. For this reason, foreign investors rated the Bank's administration of exchange regulations as unsatisfactory.

The Finance Act of FY 07/08 added, on an exceptional basis, a 5-percent tax on capital gains and an additional 5 percent to the existing tax on repatriation of foreign dividends.

In general, Nepalis are not permitted to invest outside of Nepal. Exceptions, however, can be granted on a case-by-case basis, and policing of the prohibition is weak. In 1995, a private airline was permitted to invest in a regional carrier based in Kolkata, however, the Nepalese airline stopped operation and closed down in 2005. The next year, another private airline operator formed a joint venture with a regional carrier based in India to operate flights in northeastern Indian states. These are the few instances of approved direct foreign investment by Nepalese nationals. During the peak of the Maoist insurgency in 2004 and 2005, a few industrial houses made unauthorized investments in India and Gulf countries.

Expropriation and Compensation

[*Return to top*](#)

The Industrial Enterprise Act of 1992 states that "no industry shall be nationalized." The GON routinely reiterates this point in negotiations with private-sector firms interested in the hydropower sector. There have been no cases of nationalization in Nepal, nor are any anticipated.

Companies can be sealed or confiscated if they do not pay taxes in accordance with Nepali law. There are no official policies either existing or planned that suggest official expropriation should be of concern to prospective investors. There have been instances in the past in which unscrupulous local partners used the tax or regulatory systems to seize control of a joint venture firm from a U.S. investor. Such cases have not involved major Nepali business houses, however.

Dispute Settlement

[*Return to top*](#)

In the event of a dispute with a foreign investor, the concerned parties are encouraged to settle it through mediation in the presence of the Department of Industry. If the dispute

cannot be settled in this manner, cases involving investments less than NRS 500 million (approximately USD 6.5 million) in value will be referred to arbitration in Nepal in accordance with the Arbitration Rules of the United Nations Commission for International Trade Law (UNCITRAL). For investments that exceed this amount, the government of Nepal will permit stipulation of legal jurisdiction other than Nepal in shareholder agreements and contracts.

There have been two investment disputes over the past few years in which the GON did not honor portions of contracts with foreign investors. Coca-Cola Company has a pending tax dispute with the Department of Internal Revenue, and the Bhotekoshi Hydropower Company, which currently has only a 5-percent U.S. stake, has a pending payment dispute with Nepal Electricity Authority and the Ministry of Water Resources. Disputes have not been frequent, but investors should be aware that the GON may not fully comply with its contracts.

All real property transactions must be registered, and property holdings cannot be transferred without following established procedures. Even so, property disputes account for half of the current backlog in Nepal's overburdened court system, and such cases can take years to settle. Moreover, laws and regulations regarding property registration, ownership and transfer are unclear, and interpretation can vary from case to case.

Liquidation is covered by both the Company Act and the Insolvency Act of 2006. If a company is solvent, its liquidation is covered by the Company Act. If the company is insolvent and unable to pay liabilities, or liabilities are more than assets, then its liquidation is covered by the Insolvency Act. Under the Company Act, the claimant priorities are: 1) government revenue; 2) creditors; and 3) shareholders. Under the Insolvency Act the government ranks with all other unsecured creditors. Monetary judgments are made in local currency.

Nepal is a signatory to and adheres to the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards, and it has updated its legislation on dispute settlement to bring its laws into line with the requirements of that convention. The Arbitration Act of 1999 allows the enforcement of foreign arbitral awards and limits the conditions under which those awards can be challenged.

Performance Requirements and Incentives

[*Return to top*](#)

The Nepal Laws Revision Act of 2000 has eliminated most tax incentives, regardless of whether they were connected with performance requirements. Exports, however, are still favored, as is investment in certain "priority" industries. There is no discrimination against foreign investors with respect to export/import policies or non-tariff barriers. There is no local content or export performance requirement. There is no requirement that nationals own shares, that the share of foreign equity be reduced over time, or that technology be transferred. However, in the service sectors, which were opened in 2005, permitted foreign investment limits range from 51 to 80 percent; the balance of the investment is reserved for Nepali nationals in order to form a joint venture with a foreign investor. Foreign investment in cottage industries is still not allowed. The GON does offer tax incentives to encourage industries to locate outside the Kathmandu Valley due

to pollution and overpopulation in the Valley and an interest in developing poorer parts of the country.

Profits from exports are taxed at 20 percent. Customs, value added tax (VAT), and excise duties on raw materials used in the production of export items are supposed to be reimbursed within 60 days. In practice, however, these duty paybacks are often extensively delayed. Although income in certain priority industries, such as garments, carpets and jewelry, used to be taxed at a concessional rate of 10 percent, the Income Tax Act 2002 removed most of these concessions.

The Electricity Act of 1992 governs foreign investments in hydropower generation. The Act exempts developers from income tax for the first 15 years of a project's operation and provides a flat 1-percent customs rate on all imported construction materials, equipment and spare parts, provided that such goods are not manufactured in Nepal.

Foreign investors are not required to disclose proprietary information to government agencies as part of the regulatory approval process. There are no restrictions on participation by foreign firms in government-sponsored research and development programs; however, depending upon the nature of the job and expertise required, government agencies sometimes limit such participation to Nepali nationals.

Right to Private Ownership and Establishment

[*Return to top*](#)

Foreigners are free to establish and own business enterprises and engage in all forms of business activity with the exception of a few sectors. Foreign investment is prohibited in defense industries, real estate, and security printing. In addition, investment is restricted in some areas. For instance, foreign banks have not yet been allowed to open wholly-owned subsidiaries or branch operations in Nepal.

The GON is moving slowly toward open competition in most sectors of the economy. Former public monopolies in banking, insurance, airline services, telecommunications and trade have already been eliminated, and the remaining restrictions on private and foreign operations in other areas are being scaled back.

The Competition Promotion and Market Protection Act, which came into force in January 2007, defines anti-competitive practices and bars them. With the enactment of the law, tied selling, bid rigging, cartel formation, collective price fixing, market restrictions, dial-system, market segregation, undue business influences, syndicate, and exclusive dealing have now become illegal in the Nepal. The law also prevents companies from engaging in business takeovers which would help establish monopolies in the market. Sale of inferior quality goods has also been made punishable. To date, the law has been ineffective because the government has yet to establish the necessary enforcement mechanisms. The law was drafted through a joint initiative of the private sector and the then Ministry of Industry, Commerce and Supplies.

Protection of Property Rights

[*Return to top*](#)

The Contract Act of 2000 incorporates many new features, including provisions recognizing mortgages, sales, appointment of agents, and shipment of goods as contracts. Protection of intellectual property rights is inadequate. Patents registration, under the Patent, Design and Trademark Act of 1965, does not provide automatic protection to foreign designs and trademarks. Similarly, Nepal does not automatically recognize patents awarded by other nations. The Copyright Act of 2002 is similar in that it does not recognize foreign registrations. However, the Act covers most modern forms of authorship and provides adequate periods of protection. Enforcement is weak, with the result being that much of the software and most audio and visual video recordings now circulating in Nepal are pirated. As per the commitment made by the country on its accession to the World Trade Organization, Nepal must enact new legislation on trade-related intellectual property rights to bring the country into compliance with international norms. Nepal has not yet signed the World Intellectual Property Organization (WIPO) Copyright Treaty (WCT) or the WIPO Performances and Phonograms Treaty (WPPT).

Trademarks must be registered in Nepal to receive protection. Once registered, trademarks are protected for a period of seven years. Enforcement is very poor.

Transparency of the Regulatory System

[*Return to top*](#)

Foreign investors in Nepal must deal with a non-transparent legal system. Firms complain that basic legal procedures are neither quick nor routine. The bureaucracy is generally reluctant to accept legal precedents. As a consequence, businesses are often forced to re-litigate issues that had been previously settled. Furthermore, legislation banning foreign investment in financial, legal, and accounting services has made it difficult for investors to find help cutting through regulatory red tape.

Labor, health, and safety laws exist but are not properly enforced. Some companies report that the process of terminating unsatisfactory employees is cumbersome and that protective labor laws make it very difficult to bring skilled foreign-national specialists, such as pilots, engineers, and architects, into Nepal.

Efficient Capital Markets and Portfolio Investment

[*Return to top*](#)

Credit is generally allocated on market terms, although special credit arrangements exist for farmers and rural producers through the Agricultural Development Bank of Nepal. Foreign-owned companies can obtain loans on the local market. The private sector has access to a variety of credit and investment instruments. These include public stock and direct loans from finance companies and joint venture commercial banks.

Legal, regulatory, and accounting systems are neither fully transparent nor consistent with international norms. Though auditing is mandatory, professional accounting standards are low, and many practitioners are either poorly trained or lacking in business ethics. Under the circumstances, published financial reports are often unreliable, and

investors are better advised to rely on general business reputations, except in the few cases in which companies have applied international accounting standards.

The Nepali banking system is small, fragmented, and, in some cases, plagued by bad loans. Banking system assets totaled approximately USD 9.19 billion as of mid-November 2008, while its capital (total deposits) totaled USD 5.71 billion. As of July 15, 2008, 6.08 percent of the total asset base was estimated as non-performing. Foreign commercial lending is scarce and expensive. Currently, there are no resident or non-resident foreign commercial banks that have standing credit limits for loans of a maturity of more than one year.

There is no regulatory system to encourage and facilitate portfolio investment in the industrial sector. Lack of transparency or regular reporting of reliable corporate information also presents problems for potential foreign investors. There are no legal provisions to defend against hostile takeovers. The GON has made certain exceptions to promote Foreign Direct Investment (FDI) in tourism and hydropower. In these sectors, there can be 100 percent foreign investment. The Clean Energy Development Bank (CEDB) has established a development fund of approximately US\$ 3.2 million for funding feasibility studies of small and medium sized hydropower projects. The “Hydro Development Fund” will fill the early-stage financing gap for development of small- and medium-sized hydropower plants in Nepal.

Political Violence

[*Return to top*](#)

From 1996 to 2006, Nepal suffered from a violent Maoist insurgency. The People’s Movement of April 2006, brought together the Communist Party of Nepal-Maoist (CPN-M) with the other major political parties of Nepal, popularly known as the Seven-Party Alliance (SPA), and ultimately compelled the King to end 15 months of direct rule. The parliament, which had been dissolved in May 2002, was reinstated. The restored parliament initiated a ceasefire with the Maoist rebels, stripped the King of most of his powers and launched a peace process that included the signing of a Comprehensive Peace Agreement (CPA), and the monitoring of the Nepal Army and the Maoist army and their weapons by unarmed UN observers under the United Nations Mission to Nepal (UNMIN).

In January 2007, an interim parliament was formed from members of the restored parliament and new members nominated by the CPN-M and the SPA. It approved the interim constitution and began preparations for the election of a constituent assembly (CA), which would be tasked with drafting a new constitution. In April 2007, the Maoists joined the interim government. That same month the CA election, which had been scheduled for June, was postponed. The next year was marked by on-again-off-again CA elections and the Maoist’s withdrawal and return to the interim government. The CPN-M eventually agreed with the SPA to hold the CA election by April 2008, and it re-entered the government after the interim parliament agreed to make abolishment of the monarchy the first order of business at the initial meeting of the new CA.

Even with these agreements in place, the CA election was constantly at risk because of political divisions and the poor security, particularly in the Terai, the southern border

region with India. While the ceasefire and CPA raised hopes nationwide, the early optimism quickly eroded. Political parties generally failed to respond to concerns of those living outside the Kathmandu Valley and certain segments of the population – including women, youth, lower castes, and ethnic minorities – were marginalized. Having little trust in the political process, splinter groups increasingly resorted to violence, which was exacerbated by the coalition government's inability to project a united front.

The historic Constituent Assembly election was finally held on April 10, 2008. The Communist Party of Nepal (Maoist) emerged as the largest party, securing 229 seats, and its leader formed a six-party coalition government in August 2008. The Maoists' principal partners are the CPN-UML and the Madhesi People's Rights Forum Nepal, the largest Terai-based party. The new government suffers from the same problem that hampered the interim government before the CA election: a lack of unity. Deep divisions exist not only between the coalition members but also within the individual parties themselves. As a result, the violence that marked the lead up to the election continues, and in some cases it has increased.

Tensions between the ethnic communities in the Terai, the central government and the Maoists, which led to deadly clashes with security forces in the months before the election, remain high. These communities are angered by their underrepresentation in new government. Numerous ethnic-based groups have been formed to demand greater recognition, many of which have vowed to use violence to obtain it. Widespread protests, demonstrations and strikes continue to plague the region.

Meanwhile, Maoists leaders have been unable – many people believe unwilling – to control the violent activities of its affiliated youth organization and trade unions, which continue to carry out extortion, kidnappings and other forms of intimidation, including murders. In an effort to counter the growing violence of the Maoist Young Communist League (YCL), the CPN-UML in 2008 created the Youth Force. Violent confrontations between the Maoists' youth wing and that of its largest coalition partner are common, and sometimes turn deadly. The YCL, recently renamed the Young Communist Democratic League (YCDL), however, has not limited its use of violence to its political rivals. It has also targeted the police, journalists and non-governmental organizations.

The risk of possible violence by the YCDL and Maoist-affiliated labor unions, as well as by Terai-based extremist groups, must be taken into account by any foreign firm wishing to invest in Nepal. The Department of State Travel Warning for Nepal, dated November 21, 2008, urges American citizens contemplating a visit to Nepal to obtain updated security information before they travel and to be prepared to change their plans at short notice. Given the nature, intensity and unpredictability of disturbances, American citizens are urged to exercise special caution during times when demonstrations are announced, avoid areas where demonstrations are occurring or crowds are forming, avoid road travel and maintain a low profile. All official travel outside the Kathmandu valley, including by air, requires specific clearance by the Regional Security Officer. As a result, emergency assistance to U.S. citizens may be limited. Active duty U.S. military and Department of Defense contractors must obtain a country clearance for official and unofficial travel to Nepal.

U.S. citizens who travel to or reside in Nepal are urged to register with the Consular Section of the Embassy by accessing the Department of State's travel registration site at

<https://travelregistration.state.gov> or by personal appearance at the Consular Section, located at the U.S. Embassy, Maharaajgunj, Kathmandu. The Consular Section can provide updated information on travel and security, and can be reached through the Embassy switchboard at (977) (1) 400-7200 or directly by fax (977) (1) 400-7281. Email: consktm@state.gov, web site: <http://nepal.usembassy.gov>.

U.S. citizens also should consult the Department of State's Consular Information Sheet for Nepal and Worldwide Caution Public Announcement via the Internet on the Department of State's home page at <http://travel.state.gov> or by calling 1-888-407-4747 toll free in the United States and Canada, or, for callers outside the United States and Canada, a regular toll line at 1-202-501-4444. These numbers are available from 8:00 a.m. to 8:00 p.m. Eastern Time, Monday through Friday (except U.S. federal holidays).

The U.S. Government's designation of the Communist Party of Nepal (Maoist) as a "Specially Designated Global Terrorist" organization under Executive Order 13224 and its inclusion on the "Terrorist Exclusion List" pursuant to the Immigration and Nationality Act remain in effect. These two designations make Maoists excludable from entry into the United States and bar U.S. citizens from transactions such as contribution of funds, goods, or services to, or for the benefit of, the Maoists.

Corruption

[Return to top](#)

U.S. firms and many other foreign investors have identified pervasive corruption as an obstacle to making, maintaining and expanding direct investment in Nepal. There are also frequent allegations of corruption by Nepalese government officials in the distribution of permits and approvals, in the procurement of goods and services, and in the award of contracts.

Combating corruption is the responsibility of the Commission for Investigation of Abuse of Authority (CIAA) and of the National Vigilance Center under the Ministry of Home Affairs. In the past -- and since Parliament's restoration in April 2006 -- the Parliamentary Public Accounts Committee has also played an active role in publicizing cases of misconduct on the part of GON officials. Since restoration of the multi-party system, the local media have been particularly active in unearthing and reporting cases of corruption within the government. Investigative commissions and committees are often formed to look into major cases of corruption that come to light. Officially, giving or accepting a bribe is a criminal act, punishable by imprisonment for one to six years, a fine, or both, depending on the degree of offense committed.

In the past the CIAA had been proactive in the prosecution of cases involving prominent political figures and government officials. In some cases, the Special Court has convicted the accused and, in at least one case, the convicted official is serving a jail sentence. Since the Chief Commissioner and another Commissioner retired in November 2006, the CIAA has been forced to function with only two Commissioners. In recent months CIAA's handling of the corruption cases has come under fire. In June 2007 the CIAA filed a case against the Governor and one of the executive directors of Nepal's central bank, the Nepal Rastra Bank (NRB), for alleged misuse of funds. Critics claimed that the charges were without merit and perhaps brought at the behest of others to deter initiatives taken by NRB against bank defaulters. In March 2008, the Supreme

Court convicted the Governor and the Executive Director of NRB of corruption and imposed a fine of \$ 51,538 on them. With the conviction, the two were stripped of their posts. Most of the high profile government ministers charged with corruption have, however, been acquitted by the Special Court.

The new interim constitution of Nepal has provisions to impeach the Chief Justice or other Judges for lack of competence, bad conduct, not fulfilling his/her responsibility honestly, and unable to perform his/her duty due to mental or physical condition. The accused judge is suspended from his/her job for the duration of the impeachment process. The judge will be automatically terminated from his/her job if such motion is passed by the parliament by a two-thirds' majority.

Bilateral Investment Agreements

[*Return to top*](#)

Nepal has signed bilateral investment treaties with Britain, Finland, France, Germany, India, Mauritius, and Norway.

OPIC and Other Investment Insurance Programs

[*Return to top*](#)

The Overseas Private Investment Corporation (OPIC) is free to operate in Nepal without restriction. OPIC is empowered to offer its "extended risk guarantee" facility to prospective U.S. investors in Nepal. Nepal is also a member of the Multilateral Investment Guarantee Agency (MIGA), which it joined in 1993.

The Export-Import Bank of the United States (Ex-Im Bank) is the U.S. Government's official export credit agency whose mission is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank provides export credit insurance, loan guarantees and project and structured finance for U.S. exporters and foreign buyers of U.S. goods and services.

Labor

[*Return to top*](#)

Nepal lacks a large labor force of skilled and educated workers. The overall literacy rate is only 56.5 percent. Vocational and technical training are poorly developed, and the national system of higher education is overwhelmed by high enrollment. Many secondary and college graduates are unable to find employment in positions commensurate with their education because few schools and institutions provide job-related training. The employment of foreigners is severely restricted. Under current law, the Department of Immigration must approve the employment of foreigners for all positions except the most senior ones. In private organizations, however, a significant number of professionals from India may be found in mid-level managerial positions. Existing labor legislation is not seen as business friendly and dismissal of employees can be very problematic.

The Constitution provides for the freedom to establish and join unions and associations. It permits restrictions on unions only in cases of subversion, sedition, or similar conditions. Despite the institution of parliamentary democracy in 1990, trade unions are still developing their capacity to organize workers, bargain collectively, and conduct worker education programs. The three largest traditional trade unions are affiliated with political parties. Total union participation is estimated to be around one million, which accounts for only about 10 percent of the total labor force. Excluding agriculture labor, a much higher percentage of the formal sector participates in unions. The Maoists have an active affiliated trade union, All Nepal Trade Union Federation (ANTUF), which continues to engage in a series of disputes with management in various sectors and has been condemned for supporting illegal agitations in a number of large foreign joint ventures.

In 1992, Parliament passed the Labor Act and Trade Union Act, and formulated enabling regulations. However, the government has not yet fully implemented those laws. The laws permit strikes, except by employees in essential services such as water supply, electricity, and telecommunications. The laws also empowered the government to halt a strike or suspend a union's activities if the union disturbs the peace or adversely affect the nation's economic interests, though, in practice, this is rarely done. Under the Labor Act, 60 percent of a union's membership must vote in favor of a strike in a secret ballot for the strike to be legal. The government does not restrict unions from joining international labor bodies. Several trade federations and union organizations maintain a variety of international affiliations. While officially there is no government interference in union registration, unions have complained of difficulties in registering members when opposing political parties are in power.

Frequent transportation and business closures (*bandhs*) called by political parties and other agitating groups have dramatically affected trade and industry. In 2007, labor and transport strife centered in the Terai forced the closure of businesses and halted transportation for up to 120 days in the hardest hit districts. Labor and transport strikes were also prevalent in 2008 although at a slightly lower rate. The Maoist-lead ANTUF has been aggressively trying to establish control in every industry and business sector. This has resulted in violent clashes between the members of ANTUF and the other trade unions. Several multinational companies, including the Coca-Cola Company, Colgate Palmolive and Unilever, have been forced over the past year to suspend operations or reduce production due to violent agitations, protests and persistent problem in importing raw materials and exporting their finished products.

In 2008, strikes and disruption of operation by labor increased significantly and were primarily targeted at foreign joint ventures and hotels. Beginning in January 2008, foreign investment companies like Coca Cola, Colgate Palmolive, Dabur Nepal, ITC, Unilever, and Indian telecom joint venture United Telecom Limited (UTL) were forced to stop operation repeatedly due to labor agitation. In January 2009, at least 500 factories in eastern districts Morang and Sunsari were forced to shut down due to protesting workers seeking pay hikes. On January 8, 2009, more than 200 hotels, and equal number of restaurants, tourist bus services and travel agencies in Pokhara, one of Nepal's top tourist destinations, were forced to close over the issue of minimum wages raised by the Maoist affiliated trade unions, stranding hundreds of foreign tourists for days without any food or transportation.

The Child Labor Prohibition and Regularization Act of 2000 prescribe conditions for workers 14 to 16 years old and prohibit the employment of children under the age of 16 in dangerous industries. More recent legislation, including an act to combat trafficking in persons and the interim constitution, define children as persons under the age of 18. A number of existing laws affecting child labor are in need of harmonization.

Foreign-Trade Zones/Free Ports

[Return to top](#)

Nepal has no Foreign Trade Zones or Free Trade Zones. However, in its annual budget for FY 2008/09, the GON announced its intention to set up Special Economic Zones in 10 different places of Nepal, namely, Jhapa, Dhanusha, Birgunj, Dhangadhi, Bahiaraha, Nuwakot, Jumla, IT Zone in Banepa, Mahendranagar, and Panchkhal. An ordinance on Special Economic Zones is currently pending with the cabinet. Under the ordinance, an industry exporting 75 percent or more of its products would be entitled to apply for a space in a SEZ and import of raw materials and capital goods without payment of custom duties, excise taxes or sales taxes.

Foreign Direct Investment Statistics

[Return to top](#)

Total No. of projects	1,570
Agriculture & Forestry	27
Manufacturing	601
Energy Based	32
Construction	39
Tourism	419
Mineral	16
Service	436
Total Project Cost:	USD 2,133.91million
Total Fixed Cost:	USD 1,779.58million
Total Foreign Investment:	USD 723.58 million
Total Employment Generated:	129,600

Source: Foreign Investment Division, Department of Industry, Nepal.

Note: As of December 15, 2008, India was by far the most important foreign investor in Nepal, with about 26.4 percent of the projects. It was also involved in five of the 10 largest foreign enterprises. In terms of total foreign investment, the United States is second; China, third; the South Korea, fourth; UK, fifth; Norway, sixth; and Japan, seventh.

-- U.S. INVESTMENT IN NEPAL (AS OF DECEMBER 17, 2008)

Total No. of projects	142
Agriculture and Forestry	4
Manufacturing	41
(9 units have either been cancelled or closed)	
Energy Based	1
Tourism Industry	36
(2 units have been cancelled)	
Service Industries	60
Total Project Cost:	USD 238.32 million
Total Fixed Cost:	USD 215.84 million
Total Foreign Investment:	USD 81.64 million
Total Employment Generated:	11,331

Source: Foreign Investment Division, Department of Industry, Nepal.

Web Resources

[Return to top](#)

Department of Industry: www.ipo.gov.np

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 7: Trade and Project Financing

- [How Do I Get Paid \(Methods of Payment\)](#)
- [How Does the Banking System Operate](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
- [Web Resources](#)

How Do I Get Paid (Methods of Payment)

[Return to top](#)

The only readily available method of financing trade transactions in Nepal is a letter of credit. As of January 2009, the GON has not yet fulfilled its announced intention to open an export-import bank. Nepal does not have credit rating or collection agencies.

How Does the Banking System Operate

[Return to top](#)

Nepal Rastra Bank (NRB, Nepal's central bank) regulates the entire national banking system and also functions as the government's bank. As a regulator, NRB controls foreign exchange; supervises, monitors, and governs operations of all banking and non-banking financial institutions; determines interest rates for commercial loans and deposits; and also determines exchange rates of foreign currencies. As the government's bank, NRB maintains all government income and expenditure accounts, issues Nepali bills and treasury notes, as well as loans to the government, and determines monetary policy.

Commercial lending in Nepal is governed under the Commercial Bank Act of 1974, the Finance Company Act of 1985 and the Bank and Financial Institutions Act of 2006, which authorizes the NRB to issue guidelines to all commercial banks and financial institutions on interest rates, interest ceilings, and areas of investment.

Two large banks dominate the commercial banking sector: Nepal Bank, Ltd., which is 40.5 percent government-owned and Rastriya Banijya Bank (National Commercial Bank), which is 100 percent government-owned. Together, Nepal Bank Ltd. and Rastriya Banijya Bank account for 22 percent of the entire banking system's deposits and 12.9 loans as of November 2008. Both banks reportedly have a large number of non-performing loans and are technically insolvent. Since the expiration of a five-year contract with foreign management teams, the Nepal Bank Ltd. has been run by NRB, while Rastriya Banijaya Bank is being run by a team of consultant hired by the NRB. The process for hiring new management teams for both the banks is currently under way.

In the 1980's, Nepal opened up the commercial banking sector to foreign participation. Since then several joint venture banks have been established, these include: NABIL Bank, a Nepal-Bangladesh joint venture; Nepal Investment Bank; Standard Chartered Bank; State Bank of India; Bank of Kathmandu, a Nepal-Thai joint venture; Everest Bank, Nepal Sri Lanka Merchant Bank, Nepal Bangladesh Bank; and Nepal Bank of

Ceylon. A large number of finance companies have also been established. Existing banking laws do not allow branch operation by any foreign banks. All commercial banks have correspondent banking arrangements with foreign commercial banks, which they use for transfers and payments.

In 1994, the government expanded the role of the Nepal Stock Exchange by allowing private brokers to operate. The volume of trading subsequently increased dramatically, but has since stabilized. In 1996, the GON announced that it would permit foreign institutional investors to hold up to 25 percent of the shares of listed firms in certain sectors, such as tourism and power.

Foreign-Exchange Controls

[Return to top](#)

The Nepali rupee is convertible for all current account transactions. Earners of foreign exchange are also permitted to retain 100 percent of their earnings and to open a foreign exchange account in Nepal to hold them. However, approval from the NRB is required for payments of any kind to any person living outside of Nepal. NRB approval is also required to draw, accept or negotiate any bills of exchange, promissory notes or loans, if the payee is living outside Nepal.

Foreign investors who have received permission to invest in convertible currency are permitted to repatriate the proceeds from the sale of that investment, the profits or dividends from that investment, and the principal and interest paid on any foreign loans.

One dollar is currently equivalent to approximately 78.30 Nepali rupees. The currency value is pegged to the Indian rupee at a current rate of IR 1.0 = NR 1.60. The rate against the Indian rupee is adjusted periodically.

U.S. Banks and Local Correspondent Banks

[Return to top](#)

There are no U.S. bank branches operating in Nepal. The following banks have correspondent banking arrangements with U.S. banks:

Nepal Bank Limited
Dr. Binod Atreya, Chief Executive Officer
Nepal Bank Bldg., Dharma Path
Kathmandu, Nepal
Phone: 977-1-4222397, 4221185
Fax: 977-1-4222383
Email: info@nepalbank.com.np

Rastriya Banijya Bank
Mr. Janardan Acharya, Chief Executive Officer
Central Office
Singhadurbar Plaza
GPO Box: 8368
Kathmandu, Nepal
Phone: 977-1-425-2595
Fax: 977-1-422-5302; 425-2931

Email: intlbkng@rbb.com.np
Website: <http://rbb.com.np/>

Himalayan Bank Ltd.
Mr. Ashoke SJB Rana, Chief Executive Officer
Tridevi Marg, Thamel
Kathmandu, Nepal
Phone: 977-1-4227749, 4250201
Fax: 977-1-4222800
Email: himal@hbl.com.np
Website: <http://www.himalayanbank.com/>

NABIL Bank Limited
Mr. Anil Shah, Chief Executive Officer
Nabil House, Kamaladi
P.O. Box: 3729
Kathmandu, Nepal
Phone: 4430425, 4429546-47, 4435380-85
Telex: 2385 NABIL NP, 2431 NABILH NP
Fax: 4429548
SWIFT: NARBNPKA
E-mail: nabil@nabilbank.com.np
Website: <http://www.nabilbank.com/>

Standard Chartered Bank Nepal Limited
Mr. Sujit Mundul, Chief Executive Officer
Naya Banashwor
PO Box 3990
Kathmandu, Nepal
Phone: 977-1-4782333, 4783304
Fax: 977-1-4780314
Website: <http://www.standardchartered.com/np/index.html>

Nepal Investment Bank Ltd.
Mr. Prithivi Bahadur Pandé, Chairman/Chief Executive Director
Durbar Marg
P.O. Box: 3412
Kathmandu, Nepal
Phone: 977-1- 4228229, 4228231
Fax: 977-1-4226349, 4228927
E-mail: info@nibl.com.np
Website: <http://www.nibl.com.np/>

Nepal SBI Bank Limited
Mr. N Krishnamachari, Managing Director
Durbar Marg
Kathmandu, Nepal
Phone: 977-1-4435516, 4435613
Fax: 977-1-4435612
Email: nsblco@mos.com.np
Website: www.nepalsbi.com.np; www.nsbl.com.np

Nepal-Bangladesh Bank Ltd.
Mr. Basudev Ram Joshi, Chief Executive Officer
Bijuli Bazar, New Baneswor
P O. Box: 9062
Kathmandu, Nepal
Phone: 977-1-4783972/4783975/4783976
Fax: 977-1-4780826/4780106/4780509
E-mail: nbbelho@nbbbl.com.np
Website: <http://www.nbbbl.com.np>

Bank of Kathmandu Ltd.
Mr. Radhesh Pant, Managing Director
Kamal Pokhari
P.O. Box 9044
Kathmandu, Nepal
Phone: 977-1-4418068, 4414541
Fax: 977-1-4418990
SWIFT: BOKLNPKA
Telex: 2820 BOK NP
Email: bok@bokltd.mos.com.np; info@bok.com.np
Website: <http://www.bok.com.np/home/index.php>

Everest Bank Limited
Mr. R. K.Ummat, Chief Executive Officer
EBL House, Lazimpath
P.O.Box 13384
Kathmandu, Nepal
Phone: 977-1-4443863, 4443864, 4443377
Fax: 977-1-4443160
Email: ebf@mos.com.np
Website: <http://www.everestbankltd.com/>

Project Financing

[Return to top](#)

Major projects are financed through foreign consortium financing. Infrastructure projects developed by the public sector are funded by forming a consortium of multilateral funding agencies, such as the World Bank and the Asian Development Bank, and bilateral funding agencies. Similarly, projects developed by the private sector are funded by forming a consortium of a number of foreign commercial lenders. Both the World Bank and the Asian Development Bank are active in lending for development activities, including roads, telecommunications, hydroelectric power and other infrastructure. Both provide loan and grant financing for public sector projects and loan financing for local companies.

The United States Export-Import Bank (Ex-Im Bank) can lend to both the private and public sectors in Nepal, but only against a public sector guarantee. Availability of credit varies from year to year depending on Nepal's risk rating. The Overseas Private Investment Corporation (OPIC) can make limited financing available to projects with U.S. investment interest. Agreements with Ex-Im Bank, OPIC and the International Finance Corporation (IFC) are in place. There are also numerous bilateral financing and insurance arrangements. The U.S. Trade and Development Agency (TDA) can fund

feasibility studies for projects with significant commercial implications for exports of U.S. goods and services. In the case of the Upper Bhothe Koshi Hydroelectric Project, TDA provided a USD 500,000 grant for completion of a final feasibility study.

The Nepali banking system is small, fragmented, and, in some cases, plagued by bad loans. As of mid-November 2008, banking system assets totaled approximately USD 9.19 billion. Banking system capital (total deposits) for the same period totaled USD 5.71 billion. The total amount of outstanding loans of commercial banks to the private sector was USD 4.06 billion. Accordingly, the gross convertible foreign exchange reserve of the banking sector reached USD 2.94 billion, enough to finance merchandise imports equivalent to 9.9 months. Banks are only willing to consider loans with terms of up to five years. It is difficult to borrow in excess of USD 20 million from any combination of banks in Nepal. Similarly, liquidity constraints restrict to less than USD 5 million the capital that can practically be raised on the Nepal Stock Exchange through any one public issue. There is no regulatory system to encourage and facilitate portfolio investment in the industrial sector.

Foreign commercial lending is scarce and expensive. Currently, there are no resident or non-resident foreign commercial banks that have standing credit limits for loans of a maturity of more than one year. The government has recently decided to permit foreign institutional investors to own up to 25 percent of the shares of listed firms in certain sectors, such as hydropower and tourism. Promoters can sell their shares and repatriate capital. Through an amendment in the licensing policy of financial institutions made in July 2006, Nepal Rastra Bank, the central bank of Nepal, increased the maximum foreign equity participation limit in domestic financial institutions to 85 percent from 67 percent. With the recent amendment, equity participation of foreign investors in joint venture financial institutions could range from 20 to 85 percent.

Web Resources

[Return to top](#)

Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/ccs/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

Nepal Rastra Bank (Nepal's Central Bank): <http://www.nrb.org.np/>

Foreign Exchange Control: <http://www.nrb.org.np/exchangenew.php>

U.S. Trade and Development Agency (USTDA): <http://www.tda.gov/>

International Finance Corporation (IFC):	http://www.ifc.org/
The World Bank:	http://www.worldbank.org/
Asian Development Bank:	http://www.adb.org/
Rastriya Banijya Bank:	http://rbb.com.np/
Himalayan Bank Ltd:	http://www.himalayanbank.com/
NABIL Bank Limited:	http://www.nabilbankltd.com/
Standard Charter Bank Nepal Limited:	http://www.standardchartered.com/np/index.html
Nepal-Bangladesh Bank Ltd:	http://www.nbbl.com.np
Nepal Investment Bank Ltd.:	http://www.nibl.com.np/
Everest Bank Limited:	http://www.everestbankltd.com/

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 8: Business Travel

- [Business Customs](#)
- [Travel Advisory](#)
- [Visa Requirements](#)
- [Telecommunications](#)
- [Transportation](#)
- [Language](#)
- [Health](#)
- [Local Time, Business Hours and Holidays](#)
- [Temporary Entry of Materials and Personal Belongings](#)
- [Web Resources](#)

Business Customs

[Return to top](#)

Nepal is ethnically, linguistically, and culturally diverse. Traditional and conservative by nature, Nepalis are congenial people who take pride in their national heritage. Business relations, as in much of Asia, are often tied to commonalities. Foreigners must be prepared to obtain the appropriate introductions and to spend the proper amount of time on confidence-building before entering into serious business negotiations. Visitors are normally greeted by saying "Hello" or "*namaste*," followed by a handshake. An exchange of business cards follows. Nepalis like conversing briefly before entering into business negotiations. Normal business attire is appropriate.

Travel Advisory

[Return to top](#)

For information, visit the State Department's Consular Information Sheet on Nepal at: http://travel.state.gov/travel/cis_pa_tw/tw/tw_927.html

Visa Requirements

[Return to top](#)

Nepal is a developing country with extensive facilities for tourists that vary in quality according to price and location. A passport and visa are required for entry. A single-entry tourist visa for a stay of up to 60 days is issued at ports of entry upon arrival as well as from Nepali diplomatic missions abroad for USD 30.

A traveler who has been to Nepal before on a tourist visa which has expired within the past 150 days can return on an entry visa by paying USD 50 for 30 days at entry points or at Nepali diplomatic missions abroad. In addition, a visitor wanting to stay for more

than 60 days can extend the tourist visa for 30 days by paying the equivalent of USD 50 in Nepali currency to the Department of Immigration.

Multiple-entry business visas for one and five years can be obtained from the Department of Immigration on the recommendation of the Ministry of Industry by paying the equivalent of USD 100 and USD 250 (in Nepali currency) , respectively.

Travelers can obtain additional information by contacting the Embassy of Nepal at 2131 Leroy Place, NW, Washington, DC 20008: Telephone 202/657-4550; or the Nepali Consulate General in New York: Telephone 212/370-4188.

Six-month visas are provided to prospective investors for the purpose of conducting feasibility studies. To obtain a six-month visa, applicants must provide biographic information and a description of relevant work and professional experience. The process can be expedited if the person can be readily identified as a legitimate business representative. Endorsement by a recognized foreign industrial enterprise is one means of accomplishing this. Investors describe the business visa process as bureaucratic and time-consuming. Many say they spent more than 24 work hours per visa, over a period of 20 to 30 days.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links:

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

US Embassy Kathmandu website: <http://nepal.usembassy.gov/>

Telecommunications

[Return to top](#)

Telephone facilities are fairly good in Kathmandu and other major towns, such as Pokhara, Biratnagar, Birgunj, Bhairahawa and Nepalgunj. The quality of telephone services outside major cities is poor. Large hotels in Kathmandu have business centers with 24-hour service available for telephone, fax, email, and Internet. Collect call service is not available in Nepal. Private call centers, which provide telephone, email, fax and Internet services, are widely available, but normally operate from 8 a.m. to 8 p.m. Internet accessibility is largely through dial-up connections, which is generally slow. However, broadband services are expanding in Kathmandu and elsewhere. Cellular phone services are based on GSM technology, although CDMA technology is also beginning to be installed. Telecommunication services are generally more costly than in the United States.

Transportation

[Return to top](#)

Nepal is a landlocked country and transportation both within and across borders is a major hurdle for doing business. When traveling to Kathmandu, U.S. business visitors can take either the Pacific route or the Atlantic route. U.S. airlines do not fly directly to

Kathmandu but have alliances with other foreign airlines operating in Nepal. For visitors coming via the Pacific route, Bangkok is the major transit port. Thai Airways operates daily direct flights to and from Kathmandu. Nepal Airlines operates three direct flights a week to Hong Kong, four flights a week to Dubai, three flights a week to Bangkok, and four flights a week to Kuala Lumpur, although its flights have been subject to frequent cancellations due to a lack of operational engines. Silk Air operates five days a week. Dragon Air operates four direct flights a week to Hong Kong. For visitors coming via the Atlantic route, connections are usually through Abu Dhabi, Bahrain Doha, Dubai, or New Delhi or another major European city. Gulf Air, Air Arabia, Etihad Airways and Qatar Airways, Jet Air and Indian Airlines have connecting flights to Kathmandu. Qatar Airways has two flights daily to and from Kathmandu, Gulf Air operates seven flights a week, and Air Arabia operates one flight daily. Nepal Airlines operates two direct flights a week to Dubai. New Delhi - Kathmandu is the most well-connected route as at least five airlines operate flights between these two cities, with at least three flights every day.

Nepal has one international airport in Kathmandu, three regional/hub airports, nine all-weather airports and 21 seasonal domestic airports spread throughout the country. Except for the international airport in Kathmandu, none of the domestic airports has modern navigational facilities, such as radar. Domestic air services are available for traveling to major cities and business centers. Nepal has neither a seaport nor a railway system. Road transportation is constrained. An east-west highway, which passes through the plains, connects the major cities of Nepal, but the road network with other parts of the country is very poor.

Language

[Return to top](#)

The official language of Nepal is Nepali and the script is Devanagari, the same script in which Hindi is written. The main language of business is Nepali. However, many businesspeople also speak both Hindi and English. All internal documentation and correspondence in government establishments are done in Nepali. Correspondence with foreign government agencies, international organizations and private businesses is done in English. In the private sector, English is used for most documentation and correspondence.

Health

[Return to top](#)

Medical care is extremely limited and generally not up to Western standards. Serious illness often requires evacuation to Singapore, Bangkok or New Delhi. Doctors and hospitals in Nepal expect immediate cash payment for health services. In general, U.S. medical insurance is not valid in Nepal. The Medicare/Medicaid Program does not provide for payment overseas. Supplemental health insurance that specifically covers overseas treatment and air evacuation to the nearest adequate medical facility is strongly recommended. Illnesses and injuries suffered while trekking in remote areas often require rescue by helicopter. The cost is typically USD 3,000 - 10,000. The U.S. Embassy strongly recommends visitors obtain travel insurance to cover such emergencies.

More common are illnesses caused by impure water or food. Some locally bottled water may be unsafe. Drinking only boiled water or bottled water that has been disinfected

(with iodine, chlorine, etc.) is advised. Locally bottled soft drinks, club soda, and beer are generally safe.

Additional information on health matters may be obtained from the International Traveler's Hotline of the Centers for Disease Control and Prevention (CDC) at 888/232-3228, the autofax service at 888/232-3299, or by visiting the CDC home page on the internet at <http://www.cdc.gov>.

Local Time, Business Hours, and Holidays

[Return to top](#)

Nepal's Standard Time is 5 hours 45 minutes ahead of GMT and 10 hours and 45 minutes ahead of Eastern Standard Time. Nepal does not observe daylight saving time. All government offices and banks operate a six-day workweek from Sunday to Friday. Typical business hours are 9 a.m. - 5 p.m. Most businesses (including stores) close on Saturday, but this is gradually changing. Sunday is a workday in Nepal for the business community.

National Holidays (2009)

Date	Holidays	Day	Remarks
January 14, 2009	Maghi Parba	Wednesday	
January 29, 2009	Martyr Day	Thursday	
February 18, 2009	National Democracy Day	Wednesday	
February 23, 2009	Mahashivaratri	Monday	
March 8, 2009	Women's Day	Sunday	Women only
March 10, 2009	Holi/Phagu Purnima	Tuesday	
March 11, 2009	Holi/Phagu Purnima	Wednesday	For Tarai
April 3, 2009	Ramnavami/Chaiti Dashain	Friday	
April 14, 2009	Nepali New Year Day	Tuesday	
April 24, 2009	Democracy Day	Friday	
May 1, 2009	Labor Day	Friday	
August 5, 2009	Janaipurnima/Raksha Bandhan	Wednesday	
August 7, 2009	Gai Jatra	Friday	In Ktm. only
August 13, 2009	Krishna Janmastami	Thursday	
August 23, 2009	Teej	Sunday	Women only
August 25, 2009	Rishi Panchami	Tuesday	Women only
September 3, 2009	Indrajatra	Thursday	
September 19, 2009	Ghatasthapan	Saturday	
September 21, 2009	Eid-ul-Fitr	Monday	
Sep. 25 – Oct. 1, 2009	Dashain Holidays	Friday - Thursday	
October 18-20, 2009	Diwali	Sunday - Tuesday	
December 25, 2009	Christmas Day	Friday	
December 30, 2009	Lhochhar (Tamu/Gurung)	Wednesday	

NOTE. Exact dates for holidays are announced by the GON at the beginning of each Nepali year (mid-April).

Temporary Entry of Materials and Personal Belongings

[Return to top](#)

Materials -- including vehicles, machinery, and equipment -- may be imported temporarily for special purposes such as domestic exhibitions or trade fairs by making a refundable deposit of the applicable duty. Such goods must be taken out of the country within three months of the completion of the work unless the duty has been paid and the item sold for the use of others or retained for personal use. An extension of the three-month period may be granted on appropriate and reasonable grounds upon payment of an additional ten percent of the applicable duty amount. If the duty is not paid or the goods are not re-exported within six months of entry, the government may bring smuggling charges.

Web Resources

[Return to top](#)

FAA Internet home page:	http://www.faa.gov/avr/iasa.htm
U.S. Embassy's home page:	http://nepal.usembassy.gov/
Department of Immigration, GON:	http://www.immi.gov.np/main.php
Centers for Disease Control and Prevention:	http://www.cdc.gov
State Department's Consular Info Sheet:	http://travel.state.gov/travel/cis_pa_tw/cis/cis_980.html
Indian Airlines:	http://indian-airlines.nic.in/scripts/index.asp
Gulf Air:	http://www.gulfairco.com/index/index.asp
Qatar Airways:	http://www.qatarairways.com/
Nepal Airlines:	http://www.royalnepal-airlines.com/
Thai Airways:	http://www.thaiair.com/

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 9: Contacts, Market Research, and Trade Events

- [Contacts](#)
- [Market Research](#)
- [Trade Events](#)

Contacts

[Return to top](#)

U.S. EMBASSY TRADE-RELATED CONTACTS:

Political/Economic Section
U.S. Embassy
Maharajgunj
Kathmandu, Nepal
Tel: 977-1-4007200
Fax: 977-1-4007272

Williams S. Martin, Political/Economic Chief
Email: MartinWS@state.gov

Zirnite, Peter B., Political/Economic Officer
Email: ZirnitePB@state.gov

Tapas K. Gupta, Economic/Commercial Specialist
Email: GuptaTK@state.gov

Website: <http://nepal.usembassy.gov/>

U.S. Mailing Address:
U.S. Embassy Kathmandu
6190 Kathmandu Place
Dulles, VA 20189-6190

BILATERAL CHAMBERS OF COMMERCE

Nepal-USA. Chamber of Commerce and Industry (NUSACCI)
Tel: 977-1-4478020, Fax: 977-1-478020
Email: nuscci@mos.com.np

NEPAL TRADE AND INDUSTRY ASSOCIATIONS

Federation of Nepali Chambers of Commerce & Industry (FNCCI)
Tel: 977-1-4262061, 4262007, Fax: 977-1-4261022
Website: <http://www.fncci.org>

Nepal Chamber Of Commerce
Tel: 977-1-4222890, 4258269, Fax: 977 1 4229998

Email: chamber@wlink.com.np
Website: <http://www.nepalchamber.org>

Confederation of Nepali Industries
303 Bagmati Chambers
Teku, Kathmandu
Nepal
Tel: 977-1-4243 711
Email: info@cnind.org
Website: <http://www.cnind.org>

Cargo Agents Association of Nepal
Tel: 977-1-4410403, Fax: 977-1-4419858

Handicraft Association of Nepal
Tel: 977-1-4245467, 4244231, 4243015, Fax: 977-1-4222940
Email: handi@crft.mos.com.np
Website: <http://www.yomari.com/han/>

Central Carpet Industries Association of Nepal
Tel: 977-1-4413135, 4422729, Fax: 977-1-4422891
Website: www.nepalcarpet.org

Freight Forwarders Association of Nepal
Tel: 977-1-4419769

Garment Association of Nepal
Tel: 977-1-4482691, 4481773, Fax: 977-1-4482173
Website: <http://www.ganasso.org/>

Management Association of Nepal
Tel: 977-1-4224475, Fax: 977-1-4240475
Website: <http://www.man.org.np/>

Nepal Association of Tour and Travel Agents (NATTA)
Tel: 977-1-4418661 or 4419409, Fax: 977 1 4418684
E-mail: nata@mail.com.np
Website: <http://www.nata.org.np>

Nepal Foreign Trade Association
Tel: 977-1-4223784, Fax: 977-1-4228562

Women Entrepreneurs Association of Nepal
Tel: 977-1-525031, Fax: 977-1-411277

Hotel Association Nepal (HAN)
Tel: 412705, 410522, Fax: 977-1-424914
E-mail: info@hotelassociation.org.np
Website: <http://www.hotelassociation.org.np>

GOVERNMENT OF NEPAL MINISTRIES AND OFFICES

Ministry of Finance, Singha Durbar, Kathmandu
Tel: 977-1- 4211161, Fax: 977-1-4211164
Website: <http://www.mof.gov.np>

Ministry of Industry, Commerce & Supplies, Singha Durbar, Kathmandu
Tel: 977-1-4211446, Fax: 977-1-4211619
Website: <http://www.moics.gov.np/index.php>

Ministry of Tourism & Civil Aviation, Singha Durbar, Kathmandu
Tel: 977-1- 4211870 Fax: 977-1-4211758
Website: <http://www.tourism.gov.np>

Ministry of Information & Communications, Singha Durbar, Kathmandu
Tel: 977-1-4211650, 4211556, 4211647 Fax: 977-1-4211979, 4211729, 4211610
Website: <http://www.moic.gov.np/>

Trade and Export Promotion Center, Pulchowk, Lalitpur
Tel: 977-1-5525716, 5525348, 5525898, 5525362, Fax: 977-1-5525464
Website: <http://www.tepc.gov.np/>

Nepal Tourism Board, Bhrikuti Mandap, Kathmandu
Tel: 977-1-4247037, Fax: 977-1-4227281
Website: <http://www.welcomenepal.com/>

Market Research

[Return to top](#)

The following research reports are available from the World Bank Nepal:

"Access to Financial Services in Nepal," 2007

The following research reports are available from the Bharat Book Bureau, Navi Mumbai, India.

"Nepal - Telecoms Market Overview, Statistics & Forecasts", February 2008

An "On-Line Commercial Library" is available on the U.S. Embassy Kathmandu web page at: <http://www.south-asia.com/USA/>

Country and Industry Market Reports are also available on the export.gov website at: <http://www.export.gov/OneStopConsumer/OneStop/mrllogin.jsp>

To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

(Add link to trade events section of local buyusa.gov website here or just delete this text.)

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 10: Guide to Our Services

Advocacy and Counseling

We provide export counseling to help increase exports to Nepali markets and get the information and advice you need to succeed. U.S. diplomats and other officials will also help your company, as much as possible, when problems arise, including regulatory hurdles. Support can include arranging government-to-government meetings between post Economic/Commercial Officers, or more senior Embassy officers, and high-level foreign government officials.

Agent Distributor Search: Finding Business Partners in Nepal

You can find qualified buyers, partners, or agents without traveling to the country. The Embassy's Political/Economic Section will deliver detailed information on up to five prescreened companies that have expressed an interest in your company's products and services. The service is made available for a fee.

Gold Key Matching Service

The Political/Economic Section can help you find a buyer, partner, agent or distributor. The Gold Key Service provides you with one-on-one appointments with pre-screened potential agents, distributors, sales representatives, association and government contacts, licensing or joint venture partners, and other strategic business partners in Nepal. This service is made available at fees ranging from \$300 to \$600.

Trade Leads

U.S. Embassy Kathmandu keeps track of all the major trade and supply opportunities for U.S. businesses in Nepal. Supply tenders advertised by government agencies and projects funded by donor agencies are forwarded to a trade leads database. Such trade leads are also available at our BuyUSA website: <http://www.buyusa.gov/nepal/en/>. All of our trade leads are provided as a free service for U.S. exporters.

International Company Profile

The Political/Economic Section of the U.S. Embassy in Kathmandu will prepare an International Company Profile (ICP) for U.S. businesses on request. It is a paid service and normally routed through the Department of Commerce, U.S. Export Assistance Center nearest you. Before doing business with a prospective agent, distributor, or partner, the International Company Profile will give you the background information needed to evaluate the company.

Catalog Events

U.S. Embassy Kathmandu occasionally organizes catalog events. Depending on the interest of local companies, the Political/Economic Section determines which industry

sector has the best potential for U.S. businesses. Catalog exhibition programs are organized in coordination with U.S. Commercial Service, New Delhi. We display your marketing materials, collect sales leads from interested local buyers, and then assist you as you follow up with the local contacts.

Web Resources:

BuyUSA website: <http://www.buyusa.gov/nepal/en/>.

Department of Commerce
U.S. Export Assistance Centers: <http://www.sba.gov/oit/export/useac.html>

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

<http://www.buyusa.gov/nepal/en/tradeopps.html>

[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.